

BankGuam Holding Co
Form 10-Q
November 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 000-54483

BankGuam Holding Company

(Exact name of registrant as specified in its charter)

Guam 66-0770448
(State or other jurisdiction of (IRS Employer

incorporation or organization) Identification No.)

P.O. Box BW

Hagåtña, Guam 96932

Edgar Filing: BankGuam Holding Co - Form 10-Q

(671) 472-5300

(Address, including Zip Code, and telephone number, including area code, of the registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registration was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of September 30, 2016, the registrant had outstanding 9,259,491 shares of common stock.

BANKGUAM HOLDING COMPANY

FORM 10-Q

QUARTERLY REPORT

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>	4
Item	
1. <u>Condensed Consolidated Financial Statements (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Condition at September 30, 2016, and December 31, 2015</u>	5
<u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
Item	
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item	
4. <u>Controls and Procedures</u>	48
<u>PART II. OTHER INFORMATION</u>	49
Item	
6. <u>Exhibits</u>	49
<u>Signatures</u>	50
Exhibit Index	

Exhibit 10.01 Form of Private Placement Subscription Agreement incorporated by reference from the Company's Current Reports on Form 8-K filed with the SEC on September 21, 2016

Exhibit 31.01 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002

Edgar Filing: BankGuam Holding Co - Form 10-Q

Exhibit 31.02 Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.01 Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 101.INS XBRL Instance Document.

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document.

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

Exhibit 101.LAB XBRL Taxonomy Extension Labels Linkbase Document.

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

Cautionary Note Regarding Forward-Looking Statements

For purposes of this Quarterly Report, the terms the “Company,” “we,” “us” and “our” refer to BankGuam Holding Company and its subsidiaries. This Quarterly Report on Form 10-Q contains statements that are not historical in nature, are predictive in nature, or that depend upon or refer to future events or conditions or contain forward-looking statements within the meaning of Section 21 of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These include, among other things, statements regarding:

- Competition for loans and deposits and failure to attract or retain deposits and loans;
- Local, regional, national and global economic conditions and events, and the impact they may have on us and our customers, and our assessment of that impact on our estimates, including the allowance for loan losses;
- Risks associated with concentrations in real estate related loans;
- Changes in the level of nonperforming assets and charge-offs and other credit quality measures, and their impact on the adequacy of our allowance for loan losses and our provision for loan losses;
- The effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve Board;
- Stability of funding sources and continued availability of borrowings;
- The effect of changes in laws and regulations with which the Company, Bank of Guam and BankGuam Investment and Insurance Services must comply, including any increase in Federal Deposit Insurance Corporation insurance premiums;
- Our ability to raise capital or incur debt on reasonable terms;
- Regulatory limits on Bank of Guam’s ability to pay dividends to the Company;
- The impact of the Dodd Frank Wall Street Reform and Consumer Protection Act and its implementing regulations;
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as the Financial Accounting Standards Board and other accounting standard setting bodies;
- Changes in the deferred tax asset valuation allowance in future quarters;
- The costs and effects of legal and regulatory developments, including resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews;
- The ability to increase market share and control expenses; and,
- Our success in managing the risks involved in the foregoing items,

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may be preceded by, followed by or include the words “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “will,” “is designed to” and similar expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our businesses and the environment in which they operate that could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in “Risk Factors” included in filings we make from time to time with the U.S. Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for our fiscal year ended December 31, 2015, and our other Quarterly Reports on Form 10-Q filed by us in fiscal 2016. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent

required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking statements we discuss in this Quarterly Report not to occur. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

The financial statements and the notes thereto begin on the next page.

4

BankGuam Holding Company

Unaudited Condensed Consolidated Statements of Condition

(in Thousands, Except Par Value)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$ 26,264	\$ 28,536
Interest bearing deposits in banks	173,592	72,263
Total cash and cash equivalents	199,856	100,799
Restricted cash	400	400
Investment in unconsolidated subsidiary	3,075	-
Investment securities available-for-sale, at fair value	344,609	227,535
Investment securities held-to-maturity, at amortized cost	98,320	100,519
Federal Home Loan Bank stock, at cost	1,855	1,762
Loans, net of allowance for loan losses (\$15,359 and \$14,159, respectively)	1,121,659	1,054,250
Accrued interest receivable	4,933	4,098
Premises and equipment, net	17,773	17,876
Goodwill	783	783
Other assets	42,641	36,262
Total assets	\$ 1,835,904	\$ 1,544,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 471,078	\$ 413,662
Interest bearing	1,224,952	1,009,009
Total deposits	1,696,030	1,422,671
Accrued interest payable	181	113
Subordinated debt, net	3,453	-
Other liabilities	12,656	9,358
Total liabilities	1,712,320	1,432,142
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock \$0.2083 par value; 48,000 shares authorized; 9,291 and 9,273		
shares issued and 9,259 and 9,241 shares outstanding at September 30, 2016, and December 31, 2015, respectively	1,937	1,933
Preferred stock \$100.00 par value; 300 shares authorized; 1.75 shares issued and outstanding at September 30, 2016	175	-
Additional paid-in capital, Common stock	19,837	19,659
Additional paid-in capital, Preferred stock	1,557	-
Retained earnings	101,985	94,823
Accumulated other comprehensive loss	(1,617) (3,983)

Edgar Filing: BankGuam Holding Co - Form 10-Q

Common stock in treasury, at cost (32 shares)	(290)	(290)
Total stockholders' equity	123,584		112,142	
Total liabilities and stockholders' equity	\$ 1,835,904		\$ 1,544,284	

The accompanying notes are an integral part of the condensed consolidated financial statements.

5

BankGuam Holding Company

Unaudited Condensed Consolidated Statements of Income

(Dollar and Share Amounts in Thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest income:				
Loans	\$17,362	\$16,577	\$52,110	\$48,585
Investment securities	1,245	1,156	3,696	3,380
Deposits with banks	163	32	369	119
Federal Funds sold	-	-	-	2
Total interest income	18,770	17,765	56,175	52,086
Interest expense:				
Savings deposits	473	421	1,341	1,311
Time deposits	35	41	107	124
Other borrowed funds	72	-	106	-
Total interest expense	580	462	1,554	1,435
Net interest income	18,190	17,303	54,621	50,651
Provision for loan losses	385	1,125	2,715	3,375
Net interest income, after provision for loan losses	17,805	16,178	51,906	47,276
Non-interest income:				
Service charges and fees	1,427	1,409	4,391	3,563
Investment securities gains, net (reclassified from other comprehensive income)	272	89	401	61
Income from merchant services	751	333	1,518	479
Cardholders income	268	345	963	1,069
Trustee fees	240	180	598	412
Other income	798	650	2,264	1,970
Total non-interest income	3,756	3,006	10,135	7,554
Non-interest expenses:				
Salaries and employee benefits	8,170	7,377	23,665	21,184
Occupancy	1,561	1,690	4,679	4,990
Equipment and depreciation	1,983	1,701	5,490	4,869
Insurance	406	411	1,218	1,273
Telecommunications	421	382	1,222	1,113
FDIC assessment	327	328	973	958
Professional services	475	417	1,640	1,263
Contract services	370	342	1,302	1,220
Other real estate owned	84	138	101	401
Stationery and supplies	217	206	702	555
Training and education	263	217	777	725
General, administrative and other	2,085	1,756	6,213	5,210

Edgar Filing: BankGuam Holding Co - Form 10-Q

Total non-interest expenses	16,362	14,965	47,982	43,761
Income before income taxes	5,199	4,219	14,059	11,069
Income tax expense	1,587	1,149	4,123	2,846
Net income	\$3,612	\$3,070	\$9,936	\$8,223
Earnings per share:				
Basic	\$0.39	\$0.34	\$1.07	\$0.92
Diluted	\$0.39	\$0.34	\$1.07	\$0.92
Dividends declared per share	\$0.100	\$0.100	\$0.300	\$0.300
Basic weighted average common shares	9,257	8,971	9,250	8,945
Diluted weighted average common shares	9,257	8,971	9,250	8,945

The accompanying notes are an integral part of the condensed consolidated financial statements.

BankGuam Holding Company

Unaudited Condensed Consolidated Statements of Comprehensive Income

(in Thousands)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income	\$3,612	\$3,070	\$9,936	\$8,223
Other comprehensive income (loss), net of tax effects:				
Unrealized holding (loss) gain on available-for-sale				
securities arising during the period	(257)	808	2,430	327
Reclassification for (gain) realized on				
available-for-sale securities	(272)	(89)	(401)	(61)
Amortization of unrealized holding loss on held-to-maturity				
securities during the period	118	112	337	378
Total other comprehensive (loss) income	(411)	831	2,366	644
Total comprehensive income	\$3,201	\$3,901	\$12,302	\$8,867

The accompanying notes are an integral part of the condensed consolidated financial statements.

BankGuam Holding Company

Unaudited Condensed Consolidated Statements of Cash Flows

(in Thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$9,936	\$8,223
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,715	3,375
Depreciation	2,541	2,659
Amortization of fees, discounts and premiums	1,110	1,206
Write-down and loss on sales of other real estate owned, net	29	223
Proceeds from sales of mortgage loans held for sale	14,965	16,376
Origination of mortgage loans held for sale	(14,965)	(16,376)
Increase in mortgage servicing rights	(68)	(70)
Realized gain on sale of available-for-sale securities	(401)	(61)
Realized gain on sale of premises and equipment	(18)	(16)
Net change in operating assets and liabilities:		
Accrued interest receivable	(835)	(830)
Other assets	(8,077)	(11,206)
Accrued interest payable	68	(25)
Other liabilities	6,751	8,312
Net cash provided by operating activities	13,751	11,790
Cash flows from investing activities:		
Acquisition of an unconsolidated subsidiary	(3,075)	-
Purchases of available-for-sale securities	(173,619)	(152,022)
Purchases of held-to-maturity securities	(4,037)	(3,293)
Proceeds from sales of available-for-sale securities	39,950	143,540
Maturities, prepayments and calls of available-for-sale securities	18,252	13,877
Maturities, prepayments and calls of held-to-maturity securities	6,235	7,141
Loan originations and principal collections, net	(69,879)	(78,952)
Proceeds from sales of other real estate owned	1,492	829
Proceeds from sales of premises and equipment	18	16
Purchases of premises and equipment	(2,438)	(1,913)
Net cash used in investing activities	(187,101)	(70,777)
Cash flows from financing activities:		
Net increase in deposits	273,359	91,819
(Costs of) proceeds from FHLB stock (purchase) redemption	(93)	304
Proceeds from issuance of common stock	182	2,832
Proceeds from issuance of preferred stock	1,733	-
Dividends paid	(2,774)	(2,698)
Net cash provided by financing activities	272,407	92,257
Net change in cash and cash equivalents	99,057	33,270

Edgar Filing: BankGuam Holding Co - Form 10-Q

Cash and cash equivalents at beginning of the period	100,799	105,908
Cash and cash equivalents at end of the period	\$199,856	\$139,178
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$832	\$1,461
Income taxes	220	200
Supplemental disclosure of noncash investing and financing activities:		
Net change in unrealized loss on held-to-maturity securities, net of tax	337	378
Net change in unrealized loss on available-for-sale securities, net of tax	2,029	267
Other real estate owned transferred from loans, net	442	378
Other real estate owned transferred to loans, net	(197)	(428)

The accompanying notes are an integral part of the condensed consolidated financial statements.

BankGuam Holding Company

Notes to Condensed Consolidated Financial Statements

(In thousands, except per share data)

(Unaudited)

Note 1 – Nature of Business

Organization

The accompanying condensed consolidated financial statements include the accounts of BankGuam Holding Company (“Company”) and its wholly-owned subsidiaries, Bank of Guam (“Bank”) and BankGuam Investment and Insurance Services (“BGIIS”). The Company is a Guam corporation organized on October 29, 2010, to act as a holding company of the Bank, a Guam banking corporation, a 23-branch bank serving the communities in Guam, the Commonwealth of the Northern Mariana Islands (CNMI), the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), the Republic of Palau (ROP), and San Francisco, California. BankGuam Investment and Insurance Services was incorporated in Guam in 2015 and initially capitalized during the first quarter of 2016. During July 2016, the Company executed an agreement to purchase 25% of ASC Trust Corporation.

Other than holding the shares of the Bank, BGIIS and ASC Trust Corporation, the Company conducts no significant activities, although it is authorized, with the prior approval of its principal regulator, the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”), to engage in a variety of activities related to the business of banking. Currently, substantially all of the Company’s operations are conducted and substantially all of the assets are owned by the Bank, which accounts for substantially all of our consolidated revenues, expenses and operating income. The Bank provides a variety of financial services to individuals, businesses and governments through its branches. The Bank’s headquarters is located in Hagåtña, Guam. The Bank currently has twelve branches in Guam, four in the CNMI, four in the FSM, one in the RMI, one in the ROP, and one in San Francisco, California. Its primary deposit products are demand deposits, savings and time certificate accounts, and its primary lending products are consumer, commercial and real estate loans.

For ease of reference we will sometimes refer to the Company as “we”, “us” or “our”.

Note 2 – Summary of Significant Accounting Policies and Recent Accounting Pronouncements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all footnotes that would be required for a full presentation of financial condition, results of operations, changes in cash flows and comprehensive income in accordance with generally accepted accounting principles in the United States (“GAAP”). However, these interim financial statements reflect all adjustments (consisting of normal recurring adjustments and accruals) which, in the opinion of our management, are necessary for a fair presentation of our financial condition, results of operations and cash flows for the interim periods presented.

These unaudited condensed consolidated financial statements have been prepared on a basis consistent with prior periods, and should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2015, and the notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 on March 14, 2016.

Our condensed consolidated financial condition at September 30, 2016, and the condensed consolidated results of operations for the three and nine months ended September 30, 2016, are not necessarily indicative of what our financial condition will be as of December 31, 2016, or of the results of our operations that may be expected for the full year ending December 31, 2016.

The Company has evaluated events through the date at which these unaudited condensed consolidated financial statements are filed with the SEC, for transactions and other events which may require adjustment of and/or disclosure in such financial statements.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of income and expenses during the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of other real estate owned, other than temporary impairment of securities and the fair value of financial instruments.

Recent Accounting Pronouncements

In January 2014 the FASB issued ASU 2014-04, “Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure”, which clarifies the timing of when a creditor is considered to have taken physical possession of residential real estate collateral for a consumer mortgage loan, resulting in the reclassification of the loan receivable to real estate owned. A creditor has taken physical possession of the property when either (1) the creditor obtains legal title through foreclosure, or (2) the borrower transfers all interests in the property to the creditor via a deed in lieu of foreclosure or a similar legal agreement. The update also requires disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in residential real estate mortgage loans that are in process of foreclosure. This guidance is effective for interim and annual periods beginning after December 15, 2014. We adopted this guidance on January 1, 2015, and it did not have a material impact on our financial statement presentation.

In August 2014, the FASB issued ASU 2014-14, “Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)”, which addresses the

classification of certain foreclosed mortgage loans held by creditors that are either fully or partially guaranteed under government programs. Under certain government-sponsored loan guarantee programs, qualifying creditors can extend mortgage loans to borrowers with a guarantee that entitles the creditor to recover all or a portion of the unpaid principal balance from the government if the borrower defaults. The ASU requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. The separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered. For public business entities, the guidance is effective for annual periods beginning after December 15, 2014 and interim periods within that year. We adopted this guidance on January 1, 2015, and it did not have a material impact on our consolidated financial condition or results of operations.

Recently Issued but Not Yet Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers”. Among other objectives, it is intended to provide more useful information to the users of financial statements by making the definition and recognition of revenue more comparable across reporting entities, industries, jurisdictions and capital markets. We are currently evaluating the prospective impact of ASU 2014-09 on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”, to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information and to address certain aspects of the recognition, measurement, presentation and disclosure of the fair value, including impairment assessments, of financial instruments. We are currently evaluating the impact of ASU 2016-01 on our consolidated financial statements, which is effective for public business entities on January 1, 2018.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”, a new Topic intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements on the basis that it is important that users of financial statements have a complete and understandable picture of an entity’s leasing activities. We are currently evaluating the impact of ASU 2016-02 on our consolidated financial statements, which is effective for public business entities January 1, 2019.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326)”, to amend the standards for the measurement of credit losses on financial instruments by replacing the historical incurred loss impairment methodology of determining the level of the allowance for loan and lease losses (ALLL), including losses associated with available-for-sale securities, with a more decision-useful methodology that reflects expected credit losses over the life of a financial instrument based upon historical experience, current conditions, and reasonable and supportable forecasts in determining the ALLL level, as well as the reserve for off-balance-sheet credit exposures. We are currently evaluating the impact of ASU 2016-13 on our consolidated financial statements, which is effective for public business entities January 1, 2020.

Note 3 – Earnings Per Common Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Potential common shares that may be issued by the Company relate to shares subscribed but not yet issued in 2016 and 2015 under the Employee Stock Purchase Plan, and are reported as

Edgar Filing: BankGuam Holding Co - Form 10-Q

dilutive options. No shares were subscribed but not issued at the end of the nine months ended September 30, 2016 and 2015.

Earnings per common share have been computed based on reported net income and the following common share data:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income available for common stockholders	\$3,612	\$3,070	\$9,936	\$8,223
Weighted average number of common shares outstanding	9,257	8,971	9,250	8,945
Effect of dilutive options	-	-	-	-
Weighted average number of common shares outstanding - used to calculate diluted earnings per common share	9,257	8,971	9,250	8,945
Income per common share:				
Basic	\$0.39	\$0.34	\$1.07	\$0.92
Diluted	\$0.39	\$0.34	\$1.07	\$0.92

Note 4 – Investment Securities

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, follows:

	September 30, 2016			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities Available-for-Sale				
U.S. government agency and government sponsored				
enterprise (GSE) debt securities	\$97,945	\$ 884	\$ (9)	\$98,820
U.S. government agency pool securities	184,496	66	(1,358)	183,204
U.S. government agency or GSE mortgage-backed				
securities	61,999	694	(108)	62,585
Total	\$344,440	\$ 1,644	\$ (1,475)	\$344,609
Securities Held-to-Maturity				
U.S. government agency and GSE debt securities	\$44,842	\$ 1,903	\$ -	\$46,745
U.S. government agency pool securities	14,378	23	(92)	14,309
U.S. government agency or GSE mortgage-backed				
securities	39,100	1,096	(45)	40,151
Total	\$98,320	\$ 3,022	\$ (137)	\$101,205
December 31, 2015				
	December 31, 2015			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities Available-for-Sale				
U.S. government agency and GSE debt securities				
U.S. government agency pool securities	\$107,070	\$ -	\$ (1,048)	\$106,022
U.S. government agency or GSE mortgage-backed	51,808	30	(934)	50,904
securities	71,562	44	(997)	70,609
Total	\$230,440	\$ 74	\$ (2,979)	\$227,535
Securities Held-to-Maturity				
U.S. government agency and GSE debt securities				
U.S. government agency pool securities	\$44,638	\$ 1,055	\$ (116)	\$45,577
U.S. government agency or GSE mortgage-backed	16,035	31	(47)	16,019
securities	39,846	613	(131)	40,328
Total	\$100,519	\$ 1,699	\$ (294)	\$101,924

At September 30, 2016, and December 31, 2015, investment securities with a carrying value of \$323.3 million and \$202.8 million, respectively, were pledged to secure various government deposits and to meet other public requirements.

Edgar Filing: BankGuam Holding Co - Form 10-Q

The amortized cost and estimated fair value of investment securities by contractual maturity at September 30, 2016, and December 31, 2015, are shown below.

	September 30, 2016			
	Available-for-Sale		Held-to-Maturity	
	Estimated		Estimated	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Due within one year	\$-	\$-	\$-	\$-
Due after one but within five years	102,846	103,697	58,057	60,336
Due after five but within ten years	28,156	28,068	15,038	15,417
Due after ten years	213,438	212,844	25,225	25,452
Total	\$344,440	\$344,609	\$98,320	\$101,205

	December 31, 2015			
	Available-for-Sale		Held-to-Maturity	
	Estimated		Estimated	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Due within one year	\$-	\$-	\$-	\$-
Due after one but within five years	111,998	110,954	42,786	43,508
Due after five but within ten years	11,263	11,116	29,438	30,109
Due after ten years	107,179	105,465	28,295	28,307
Total	\$230,440	\$227,535	\$100,519	\$101,924

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2016, and December 31, 2015.

	September 30, 2016					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Estimated		Estimated		Estimated	
	Unrealized	Fair	Unrealized	Fair	Unrealized	Fair
	Loss	Value	Loss	Value	Loss	Value
Securities Available for Sale						
U.S. government agency and government						
sponsored enterprise (GSE) debt securities	\$ (9)	\$ 15,337	\$ -	\$ -	\$ (9)	\$ 15,337
U.S. government agency pool						
securities	(423)	105,685	(935)	28,276	(1,358)	133,961
U.S. government agency or GSE						
mortgage-backed securities	(5)	2,975	(103)	12,766	(108)	15,741
Total	\$ (437)	\$ 123,997	\$ (1,038)	\$ 41,042	\$ (1,475)	\$ 165,039
Securities Held to Maturity						
U.S. government agency and GSE						
debt securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agency pool						
securities	(6)	2,019	(86)	8,592	(92)	10,611
U.S. government agency or GSE						
mortgage-backed securities	(45)	3,973	-	-	(45)	3,973
Total	\$ (51)	\$ 5,992	\$ (86)	\$ 8,592	\$ (137)	\$ 14,584
	December 31, 2015					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Estimated		Estimated		Estimated	
	Unrealized	Fair	Unrealized	Fair	Unrealized	Fair
	Loss	Value	Loss	Value	Loss	Value
Securities Available for Sale						
U.S. government agency and GSE						
debt securities	\$ (1,048)	\$ 106,022	\$ -	\$ -	\$ (1,048)	\$ 106,022

Edgar Filing: BankGuam Holding Co - Form 10-Q

U.S. government agency pool							
securities	(51)	12,981	(883)	29,965	(934)	42,946	
U.S. government agency or GSE							
mortgage-backed securities	(864)	52,153	(133)	14,669	(997)	66,822	
Total	\$(1,963)	\$171,156	\$ (1,016)	\$ 44,634	\$(2,979)	\$215,790	

Securities Held to Maturity

U.S. government agency and GSE

debt securities	\$(116)	\$15,999	\$ -	\$ -	\$(116)	\$15,999	
-----------------	----------	----------	------	------	----------	----------	--

U.S. government agency pool

securities	(9)	6,558	(38)	7,832	(47)	14,390	
------------	------	-------	-------	-------	-------	--------	--

U.S. government agency or GSE

mortgage-backed securities	(131)	17,935	-	-	(131)	17,935	
----------------------------	--------	--------	---	---	--------	--------	--

Total	\$(256)	\$40,492	\$ (38)	\$ 7,832	\$(294)	\$48,324	
-------	----------	----------	----------	----------	----------	----------	--

The investment securities that were in an unrealized loss position as of September 30, 2016, which comprised a total of 70 securities, were not other-than-temporarily impaired. Specifically, the 70 securities are comprised of the following: 58 Small Business Administration (SBA) Pool securities, 6 mortgage-backed securities issued by the Government National Mortgage Association (GNMA), 2 mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) and 4 step-up securities issued by the Federal Home Loan Bank (FHLB).

Total gross unrealized losses were primarily attributable to changes in market interest rates, relative to when the investment securities were purchased, and not due to any change in the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not likely that the Company will be required to sell the investment securities before recovery of their amortized cost bases.

Investment in Unconsolidated Subsidiary

In May 2016, the Company entered into a Stock Purchase Agreement to acquire 25% of ASC Trust Corporation, a Guam trust company. In July 2016, subsequent to the approval of the Federal Reserve Bank of San Francisco in June 2016, the purchase was executed. The Company took on \$3.5 million in subordinated debt in connection with the purchase to finance the transaction. The Agreement provides for the acquisition of an additional 20% of the stock of ASC Trust Corporation in April 2019, and another 25% in April 2021, with both future purchases subject to regulatory approval. The Agreement contains customary warranties, representations and indemnification provisions.

Note 5 – Loans Held for Sale, Loans and Allowance for Loan Losses

Loans Held for Sale

In its normal course of business, the Bank originates mortgage loans held for sale for the Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”). The Bank has elected to measure its residential mortgage loans held for sale at the lower of cost or market. Origination fees and costs are recognized in earnings at the time of origination. Loans are sold to Freddie Mac at par.

During the nine months ended September 30, 2016, the Bank originated and sold approximately \$15.0 million in FHLMC mortgage loans.

Mortgage loans serviced for others are not included in the accompanying condensed consolidated statements of condition. The unpaid principal balances of mortgage loans serviced for others were \$212.4 million and \$213.2 million at September 30, 2016, and December 31, 2015, respectively.

We retain mortgage servicing rights on mortgage loans that we sell. Such rights represent the net positive cash flows generated from the servicing of such mortgage loans and we recognize such rights as assets on our statements of financial condition based on their estimated fair values. We receive servicing fees, less any subservicing costs, on the unpaid principal balances of such mortgage loans. Those fees are collected from the monthly payments made by the mortgagors or from the proceeds of the sale or foreclosure and liquidation of the underlying real property collateralizing the loans. At September 30, 2016 and December 31, 2015, mortgage servicing rights totaled \$1.5 million and \$1.5 million, respectively, and are included in other assets in the accompanying consolidated statements of condition. The Bank accounts for mortgage servicing rights at fair value with changes in fair value recorded in the condensed consolidated statements of income.

Loans

Outstanding loan balances are presented net of unearned income, deferred loan fees, and unamortized discount and premium. Loans subject to ASC 310-30 are presented net of the related accretable yield and nonaccretable difference.

The loan portfolio consisted of the following at:

Edgar Filing: BankGuam Holding Co - Form 10-Q

	September 30, 2016		December 31, 2015	
	Amount	Percent	Amount	Percent
Commercial				
Commercial & industrial	\$245,398	21.5 %	\$233,351	21.8 %
Commercial mortgage	533,817	46.8 %	420,049	39.2 %
Commercial construction	3,508	0.3 %	62,415	5.8 %
Commercial agriculture	749	0.1 %	-	0.0 %
Total commercial	783,472	68.8 %	715,815	66.9 %
Consumer				
Residential mortgage	144,712	12.7 %	144,007	13.5 %
Home equity	463	0.0 %	628	0.1 %
Automobile	29,635	2.6 %	26,541	2.5 %
Other consumer loans ¹	181,263	15.9 %	183,597	17.1 %
Total consumer	356,073	31.2 %	354,773	33.1 %
Gross loans	1,139,545	100.0 %	1,070,588	100.0 %
Deferred fee (income) costs, net	(2,527)		(2,179)	
Allowance for loan losses	(15,359)		(14,159)	
Loans, net	\$1,121,659		\$1,054,250	

¹ Comprised of other revolving credit, installment loans, and overdrafts.

At September 30, 2016, total gross loans increased by \$69.0 million to \$1.14 billion from \$1.07 billion at December 31, 2015. The increase in loans was primarily attributed to a \$67.7 million increase in commercial loans to \$783.5 million at September 30, 2016, from \$715.8 million at December 31, 2015. The increase in commercial loans was due to the \$113.8 million increase in commercial mortgage loans, the \$12.0 million increase in commercial & industrial loans and the \$749 thousand increase in commercial agriculture loans, offset by the \$58.9 million decrease in the commercial construction loan portfolio. The increase in commercial loans was supplemented by a \$1.3 million increase in consumer loans to \$356.1 million at September 30, 2016, up from \$354.8 million at December 31, 2015. The increase in consumer loans was primarily due to the \$3.1 million

increase in automobile loans and the \$705 thousand increase in residential mortgage loans. These increases in consumer loans were offset by a \$2.3 million decrease in other consumer loans and the \$165 thousand decrease in home equity loans.

Allowance for Loan Losses

The allowance for loan losses is evaluated on a quarterly basis by Bank management, and is based upon management's periodic review of the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available or conditions change.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. ASC 310-10 defines an impaired loan as one for which there is uncertainty concerning collection of all principal and interest per the contractual terms of the loan. For those loans that are classified as impaired, an allowance is established when the discounted cash flow (or the collateral value or the observable market price) of the impaired loan is lower than the carrying value of the loan. The general component covers unimpaired loans, and is estimated using a loss migration analysis based on historical charge-off experience and expected loss, given the default probability derived from the Bank's internal risk rating process. The loss migration analysis tracks a certain number of quarters of loan loss history and industry loss factors to determine historical losses by classification category for each loan type, except certain consumer loans. These calculated loss factors are then applied to outstanding loan balances for all loans on accrual designated as "Pass," "Special Mention," "Substandard" or "Doubtful" ("classified loans" or "classification categories"). Additionally, a qualitative factor that is determined utilizing external economic factors and internal assessments is applied to each homogeneous loan pool. We also conduct individual loan review analyses, as part of the allowance for loan loss allocation process, applying specific monitoring policies and procedures in analyzing the existing loan portfolio.

Credit Quality Indicators

The Bank uses several credit quality indicators to manage credit risk, including an internal credit risk rating system that categorizes loans into pass, special mention, substandard, formula classified, doubtful or loss categories. Credit risk ratings are applied individually to those classes of loans that have significant or unique credit characteristics and that benefit from a case-by-case evaluation. These are typically loans to businesses or individuals in the classes which comprise the commercial portfolio segment. Groups of loans that are underwritten and structured using standardized criteria and characteristics, such as statistical models (e.g., credit scoring or payment performance), are typically risk-rated and monitored collectively. These are typically loans to individuals in the classes which comprise the consumer portfolio segment.

The following are the definitions of the Bank's credit quality indicators:

Pass (A): Exceptional: Essentially risk-free credit. These are loans of the highest quality that pose virtually no risk of loss to the Bank. This includes loans fully collateralized by means of a savings account(s) and time certificate(s) of deposit, and by at least 110% of the loan amount. Borrowers should have strong financial statements, good liquidity and excellent credit.

Pass (B): Standard: Multiple, strong sources of repayment. These are loans to borrowers with a demonstrated history of financial and managerial performance. The risk of loss is considered to be low. Loans are well-structured, with clearly identified primary and readily available secondary sources of repayment. These loans may also be secured by an equal amount of funds in a savings account or time certificate of deposit. These loans may be secured by

marketable collateral whose value can be reasonably determined through outside appraisals. The borrower characteristically has well supported cash flows and low leverage.

Pass (C): Acceptable: Good primary and secondary sources of repayment. These are loans to borrowers of average financial condition, stability and management expertise. The borrower should be a well-established individual or company with adequate financial resources to withstand short-term fluctuations in the marketplace. The borrower's financial ratios and trends are favorable. The loans may be unsecured or supported by non-real estate collateral for which the value is more difficult to determine, represent a reasonable credit risk and require an average amount of account officer attention. The borrower's ability to repay unsecured credit is to be of unquestionable strength.

Pass (D): Monitor: Sufficient primary sources of repayment and an acceptable secondary source of repayment. Acceptable business or individual credit, but the borrower's operations, cash flows or financial conditions carry average levels of risk. These loans are considered to be collectable in full, but may require a greater-than-average amount of loan officer monitoring. Borrowers are capable of absorbing normal setbacks without failing to meet the terms of the loan agreement.

Special Mention: A Special Mention asset has potential weaknesses that deserve a heightened degree of monitoring. These potential weaknesses may result in a deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. The Special Mention classification should neither be a compromise between a pass grade and substandard, nor should it be a "catch all" grade to identify any loan that has a policy exception.

Substandard: A Substandard asset is inadequately protected by the current sound worth and payment capacity of the obligor or the collateral pledged. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Assets classified as substandard are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Formula Classified: Formula Classified loans are all loans and credit cards delinquent 90 days and over which have yet to be formally classified Special Mention, Substandard or Doubtful by the Bank's Loan Committee. In most instances, the monthly formula total is comprised primarily of real estate loans, consumer loans, credit cards and commercial loans under \$250 thousand. However, commercial loans are typically formally classified by the Loan Committee no later than their 90-day delinquency, and those do not become part of the formula classification. Real estate loans

90-days delinquent that are in the foreclosure process, which is typically completed within another 60 days, are not formally classified during this period.

Doubtful: A loan with weaknesses well enough defined that eventual repayment in full, on the basis of currently existing facts, conditions and values, is highly questionable, even though certain factors may be present which could improve the status of the loan. The probability of some loss is extremely high, but because of certain known factors that may work to the advantage of strengthening of the assets (i.e. capital injection, perfecting liens on additional collateral, refinancing plans, etc.), its classification as an estimated loss is deferred until its more exact status can be determined.

Loss: Loans classified as “Loss” are considered uncollectible, and are either unsecured or are supported by collateral that is of little to no value. As such, their continuance as recorded assets is not warranted. While this classification does not mandate that a loan has no ultimate recovery value, losses should be taken in the period during which these loans are deemed to be uncollectible. Loans identified as loss are immediately approved for charge-off. The Bank may refer loans to outside collection agencies, attorneys, or its internal collection division to continue collection efforts. Any subsequent recoveries are credited to the Allowance for Loan Losses.

Set forth below is a summary of the Bank’s activity in the allowance for loan losses during the three and nine months ended September 30, 2016, and the year ended December 31, 2015:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Balance, beginning of period	\$ 15,949	\$ 14,159	\$ 12,526
Provision for loan losses	385	2,715	4,488
Recoveries on loans previously charged off	347	2,642	1,402
Charged off loans	(1,322)	(4,157)	(4,257)
Balance, end of period	\$ 15,359	\$ 15,359	\$ 14,159

Edgar Filing: BankGuam Holding Co - Form 10-Q

Set forth below is information regarding loan balances and the related allowance for loan losses, by portfolio type, for the three and nine months ended September 30, 2016, and the year ended December 31, 2015, respectively.

	Residential			
	Commercial	Mortgages	Consumer	Total
Nine Months Ended September 30, 2016				
Allowance for loan losses:				
Balance at beginning of period	\$ 6,890	\$ 1,853	\$ 5,416	\$ 14,159
Charge-offs	(270)	(121)	(3,766)	\$(4,157)
Recoveries	1,667	3	972	\$2,642
Provision	184	249	2,282	\$2,715
Balance at end of period	\$ 8,471	\$ 1,984	\$ 4,904	\$ 15,359
Three Months Ended September 30, 2016				
Allowance for loan losses:				
Balance at beginning of period	\$ 8,421	\$ 2,010	\$ 5,518	\$ 15,949
Charge-offs	(64)	(30)	(1,228)	\$(1,322)
Recoveries	10	1	336	\$347
Provision	104	3	278	\$385
Balance at end of period	\$ 8,471	\$ 1,984	\$ 4,904	\$ 15,359
Allowance balance at end of quarter related to:				
Loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -
Loans collectively evaluated for impairment	\$ 8,471	\$ 1,984	\$ 4,904	\$ 15,359
Loan balances at end of quarter:				
Loans individually evaluated for impairment	\$ 8,749	\$ 6,705	\$ 148	\$ 15,602
Loans collectively evaluated for impairment	774,723	138,470	210,750	1,123,943
Ending balance	\$ 783,472	\$ 145,175	\$ 210,898	\$ 1,139,545
Year Ended December 31, 2015				
Allowance for loan losses:				
Balance at beginning of year	\$ 5,538	\$ 1,590	\$ 5,398	\$ 12,526
Charge-offs	(222)	(9)	(4,026)	(4,257)
Recoveries	98	32	1,272	1,402
Provision	1,476	240	2,772	4,488
Balance at end of year	\$ 6,890	\$ 1,853	\$ 5,416	\$ 14,159
Allowance balance at end of year related to:				
Loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -
Loans collectively evaluated for impairment	\$ 6,890	\$ 1,853	\$ 5,416	\$ 14,159
Loan balances at end of year:				
Loans individually evaluated for impairment	\$ 10,146	\$ 7,303	\$ 122	\$ 17,571
Loans collectively evaluated for impairment	705,669	137,332	210,016	1,053,017
Ending balance	\$ 715,815	\$ 144,635	\$ 210,138	\$ 1,070,588

Impairment is measured on a loan-by-loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral (if the loan is collateral-dependent). Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. The Bank performs direct write-downs of impaired loans with a charge to the allocated component of the allowance, therefore reducing the allocated component of the allowance to zero at the end of each reporting period.

Credit Quality

The following table provides a summary of the delinquency status of the Bank's loans by portfolio type:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans Outstanding
September 30, 2016						
Commercial						
Commercial & industrial	\$ 506	\$ 450	\$ 352	\$ 1,308	\$244,090	\$245,398
Commercial mortgage	540	-	962	1,502	532,315	533,817
Commercial construction	-	-	-	-	3,508	3,508
Commercial agriculture	-	-	-	-	749	749
Total commercial	1,046	450	1,314	2,810	780,662	783,472
Consumer						
Residential mortgage	6,322	4,207	2,586	13,115	131,597	144,712
Home equity	-	103	-	103	360	463
Automobile	973	126	79	1,178	28,457	29,635
Other consumer ¹	2,723	1,377	1,336	5,436	175,827	181,263
Total consumer	10,018	5,813	4,001	19,832	336,241	356,073
Total	\$ 11,064	\$ 6,263	\$ 5,315	\$ 22,642	\$ 1,116,903	\$ 1,139,545
December 31, 2015						
Commercial						
Commercial & industrial	\$ 787	\$ 136	\$ 25	\$ 948	\$232,403	\$233,351
Commercial mortgage	2,222	-	3,656	5,878	414,171	420,049
Commercial construction	-	-	-	-	62,415	62,415
Commercial agriculture	-	-	-	-	-	-
Total commercial	3,009	136	3,681	6,826	708,989	715,815
Consumer						
Residential mortgage	6,660	3,012	3,384	13,056	130,951	144,007
Home equity	7	-	-	7	621	628
Automobile	736	179	59	974	25,567	26,541
Other consumer ¹	2,488	1,590	1,481	5,559	178,038	183,597
Total consumer	9,891	4,781	4,924	19,596	335,177	354,773
Total	\$ 12,900	\$ 4,917	\$ 8,605	\$ 26,422	\$ 1,044,166	\$ 1,070,588

¹Comprised of other revolving credit, installment loans, and overdrafts.

Generally, the accrual of interest on a loan is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and is in the process of collection. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate

collectability of principal is probable, in which case interest payments are credited to income. Non-accrual loans may be restored to accrual status when principal and interest become current and full repayment is expected.

The following table provides information as of September 30, 2016, and December 31, 2015, with respect to loans on non-accrual status, by portfolio type:

	September 30, 2016	December 31, 2015
Non-accrual loans:		
Commercial		
Commercial & industrial	\$ 1,479	\$ 1,334
Commercial mortgage	7,210	8,744
Commercial construction	-	-
Commercial agriculture	-	-
Total commercial	8,689	10,078
Consumer		
Residential mortgage	6,652	7,245
Home equity	35	37
Automobile	-	-
Other consumer ¹	147	123
Total consumer	6,834	7,405
Total non-accrual loans	\$ 15,523	\$ 17,483

¹Comprised of other revolving credit, installment loans, and overdrafts.

Edgar Filing: BankGuam Holding Co - Form 10-Q

The Bank classifies its loan portfolios using internal credit quality ratings, as discussed above under Allowance for Loan Losses. The following table provides a summary of loans by portfolio type and the Bank's internal credit quality ratings as of September 30, 2016, and December 31, 2015:

	September 30, 2016	December 31, 2015	Increase (Decrease)
Pass:			
Commercial & industrial	\$ 242,788	\$ 221,063	\$ 21,725
Commercial mortgage	519,987	391,957	128,030
Commercial construction	3,508	62,415	(58,907)
Commercial agriculture	749	-	749
Residential mortgage	137,833	136,175	1,658
Home equity	463	591	(128)
Automobile	29,556	26,482	3,074
Other consumer	179,877	182,077	(2,200)
Total pass loans	\$ 1,114,761	\$ 1,020,760	\$ 94,001
Special Mention:			
Commercial & industrial	\$ 607	\$ 10,322	\$ (9,715)
Commercial mortgage	3,790	17,225	(13,435)
Commercial construction	-	-	-
Commercial agriculture	-	-	-
Residential mortgage	153	306	(153)
Home equity	-	-	-
Automobile	-	-	-
Other consumer	-	-	-
Total special mention loans	\$ 4,550	\$ 27,853	\$ (23,303)
Substandard:			
Commercial & industrial	\$ 1,980	\$ 1,937	\$ 43
Commercial mortgage	9,809	10,616	(807)
Commercial construction	-	-	-
Commercial agriculture	-	-	-
Residential mortgage	440	477	(37)
Home equity	-	-	-
Automobile	-	-	-
Other consumer	-	-	-
Total substandard loans	\$ 12,229	\$ 13,030	\$ (801)
Formula Classified:			
Commercial & industrial	\$ 23	\$ 29	\$ (6)
Commercial mortgage	231	250	(19)
Commercial construction	-	-	-
Commercial agriculture	-	-	-
Residential mortgage	6,286	7,050	(764)
Home equity	-	37	(37)
Automobile	79	59	20

Edgar Filing: BankGuam Holding Co - Form 10-Q

Other consumer	1,386	1,520	(134)
Total formula classified loans	\$ 8,005	\$ 8,945	\$ (940)
Doubtful:				
Commercial & industrial	\$ -	\$ -	\$ -	
Commercial mortgage	-	-	-	
Commercial construction	-	-	-	
Commercial agriculture	-	-	-	
Residential mortgage	-	-	-	
Home equity	-	-	-	
Automobile	-	-	-	
Other consumer	-	-	-	
Total doubtful loans	\$ -	\$ -	\$ -	
Total outstanding loans, gross	\$ 1,139,545	\$ 1,070,588	\$ 68,957	

As the above table indicates, the Bank's total gross loans approximated \$1.14 billion at September 30, 2016, up from \$1.07 billion at December 31, 2015. The disaggregation of the portfolio by risk rating in the table reflects the following changes between December 31, 2015, and September 30, 2016:

Loans rated "pass" increased by \$94.0 million to \$1.11 billion at September 30, 2016, up from \$1.02 billion at December 31, 2015. The increase was primarily in commercial mortgage loans, which increased by \$128.0 million, commercial & industrial loans, which were up by \$21.7 million, the rise in automobile loans, by \$3.1 million, and residential mortgage loans, which rose by \$1.7 million. These

20

increases were partially offset by a decrease in commercial construction loans rated “pass” by \$58.9 million and other consumer loans, which decreased by \$2.2 million. The increases in commercial mortgage loans and commercial & industrial loans were primarily due to various large loans originated in the California region and in Guam, as well as a commercial & industrial loan of \$6.8 million and a commercial mortgage loan of \$13.7 million being upgraded from “special mention” to “pass,” while the increase in automobile loans was primarily due to new dealer loan bookings. The increase in residential mortgages rated “pass” by \$1.7 million was partially due to upgrades in the credit quality of some loans, with the remainder due to new loans, partially offset by payoffs and paydowns of existing loans. During the second quarter of 2016, a commercial agriculture loan was added to the portfolio for the first time, in the amount of \$749 thousand, and remains current. The decrease in commercial construction loans is due to the completion of the construction of the project, and the loan was rolled over into a commercial mortgage. The decrease in other consumer loans rated “pass” resulted primarily from net payoffs and paydowns of outstanding loans.

•The “special mention” category, at \$4.6 million, was \$23.3 million lower at September 30, 2016, than at December 31, 2015. This is attributed to a reduction in special mention commercial mortgage loans by \$13.4 million as a result of two loan relationships being upgraded from “special mention” to “pass,” and a decline in commercial & industrial loans by \$9.7 million, which was primarily due to one loan relationship being reclassified from “special mention” to “pass.”

•Loans classified “substandard” decreased by \$801 thousand, to \$12.2 million at September 30, 2016, from \$13.0 million at December 31, 2015. The decrease was mainly the result of one loan payoff of \$1.1 million in commercial mortgage loans.

•The “formula classified” category decreased by \$940 thousand, to \$8.0 million, primarily due to \$764 thousand less in residential mortgage loans falling into this category.

•There were no loans classified as “doubtful” at either September 30, 2016, or December 31, 2015.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impaired loans include loans that are in non-accrual status and other loans that have been modified in Troubled Debt Restructurings (TDRs), where economic concessions have been granted to borrowers experiencing financial difficulties. These concessions typically result from the Bank’s loss mitigation actions, and could include reductions in the interest rate, payment extensions, forbearance, or other actions taken with the intention of maximizing collections.

The following table sets forth information regarding non-accrual loans and restructured loans, at September 30, 2016, and December 31, 2015:

	September 30, 2016	December 31, 2015
Impaired loans:		
Restructured loans:		
Non-accruing restructured loans	\$ 6,729	\$ 8,318
Accruing restructured loans	79	88
Total restructured loans	6,808	8,406

Edgar Filing: BankGuam Holding Co - Form 10-Q

Other non-accruing impaired loans	8,794	9,165
Total impaired loans	\$ 15,602	\$ 17,571
Impaired loans less than 90 days delinquent		
and included in total impaired loans	\$ 11,642	\$ 10,597

Edgar Filing: BankGuam Holding Co - Form 10-Q

The table below contains additional information with respect to impaired loans, by portfolio type, at September 30, 2016, and December 31, 2015:

	Recorded	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
September 30, 2016, With no related allowance recorded:				
Commercial & industrial	\$ 1,539	\$3,196	\$ 1,514	\$ -
Commercial mortgage	7,210	7,450	8,002	-
Commercial construction	-	-	-	-
Commercial agriculture	-	-	-	-
Residential mortgage	6,670	6,700	7,060	2
Home equity	35	35	36	-
Automobile	-	-	-	-
Other consumer	148	148	140	-
Total impaired loans with no related allowance	\$ 15,602	\$ 17,529	\$ 16,752	\$ 2
September 30, 2016, With an allowance recorded:				
Commercial & industrial	\$ -	\$ -	\$ -	\$ -
Commercial mortgage	-	-	-	-
Commercial construction	-	-	-	-
Commercial agriculture	-	-	-	-
Residential mortgage	-	-	-	-
Home equity	-	-	-	-
Automobile	-	-	-	-
Other consumer	-	-	-	-
Total impaired loans with no related allowance	\$ -	\$ -	\$ -	\$ -
December 31, 2015, With no related allowance recorded:				
Commercial & industrial	\$ 1,402	\$3,029	\$ 1,526	\$ -
Commercial mortgage	8,744	10,508	8,810	-
Commercial construction	-	-	-	-
Commercial agriculture	-	-	-	-
Residential mortgage	7,266	7,283	7,389	-
Home equity	37	-	42	-
Automobile	-	-	-	-
Other consumer	122	123	119	-
Total impaired loans with no related allowance	\$ 17,571	\$ 20,943	\$ 17,886	\$ -
December 31, 2015, With an allowance recorded:				
Commercial & industrial	\$ -	\$ -	\$ -	\$ -
Commercial mortgage	-	-	-	-
Commercial construction	-	-	-	-
Commercial agriculture	-	-	-	-
Residential mortgage	-	-	-	-

Edgar Filing: BankGuam Holding Co - Form 10-Q

Home equity	-	-	-	-
Automobile	-	-	-	-
Other consumer	-	-	-	-
Total impaired loans with no related allowance	\$ -	\$ -	\$ -	\$ -

Impairment is measured on a loan-by-loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral (if the loan is collateral-dependent). Large groups of smaller-balance, homogeneous loans are collectively evaluated for impairment. The Bank performs direct write-downs of impaired loans with a charge to the allocated component of the allowance for loan losses, thereby reducing the allocated component of the allowance to zero at the end of each reporting period.

Troubled Debt Restructurings

In accordance with FASB's Accounting Standard Update No. 2011-02, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring" (ASU No. 2011-02), the Bank had \$6.8 million of troubled debt restructurings (TDRs) as of September 30, 2016, almost entirely in commercial mortgage loans. The restructured loans recorded with the Bank have been modified for the purpose of alleviating temporary impairments to the borrower's financial condition. The modifications that the Bank has extended to borrowers have come in the form of a change in the amortization terms, reduction in the interest rate, and interest-only payments. The workout plan between the borrower and the Bank is designed to provide a bridge for cash flow shortfalls in the near term. As the borrower works through the near term issues, in most cases, the original contractual terms will be reinstated.

Additional information regarding performing and nonperforming TDRs at September 30, 2016 and December 31, 2015 is set forth in the following table:

	Number of Loans	Pre-Modification		Post-Modification	
		Outstanding Recorded	Outstanding Recorded	Outstanding Balance	
		Investment	Investment	September 30, 2016	December 31, 2015
Performing					
Residential mortgage	1	\$ 35	\$ 35	\$19	\$ 21
Commercial mortgage	1	75	75	60	67
Automobile	-	-	-	-	-
Consumer	-	-	-	-	-
Total Performing	2	110	110	79	88
Nonperforming					
Residential mortgage	-	\$ -	\$ -	\$-	\$ -
Commercial mortgage	2	10,662	10,653	6,729	8,318
Automobile	-	-	-	-	-
Consumer	-	-	-	-	-
Total Nonperforming	2	\$ 10,662	\$ 10,653	\$6,729	\$ 8,318
Total Troubled Debt					
Restructurings (TDRs)	4	\$ 10,772	\$ 10,763	\$6,808	\$ 8,406

Note 6 – Subordinated Debt

In May 2016, the Company entered into a subordinated debt agreement in the amount of \$3.5 million. The debt is scheduled to mature in July 2019. The Company utilized proceeds from the loan to acquire 25% of the shares of ASC Trust Corporation, which is Phase I of the related stock purchase agreement.

Note 7 – Commitments and Contingencies

The Bank is involved in certain legal actions and claims that arise in the ordinary course of business. Management believes that, as a result of its legal defenses and insurance arrangements, none of these matters is expected to have a material adverse effect on the Bank's, BGIIS's or the Company's financial condition, results of operations or cash flows.

Note 8 – Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the United States federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's, BGIIS's and the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items, as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). As of September 30, 2016, and December 31, 2015, the Bank met all capital adequacy requirements to which it is subject.

As of September 30, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum Total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. Effective January 1, 2015, the minimum regulatory standards for Tier 1 risk weighted capital were increased from 4.00% to 6.00% to be deemed adequately capitalized and from 6.00% to 8.00% to be deemed well capitalized, and the Bank continues to exceed the well capitalized standard in this measure.

Also effective January 1, 2015, a new Basel III capital adequacy standard was implemented. The new Common Equity Tier 1 Capital (to risk weighted assets) ratio was established to ensure that core common equity (excluding non-voting shares and preferred stock), a more narrow measure of capitalization, is sufficient to maintain the safety and soundness of financial institutions. The Bank also exceeds the well capitalized standard under this measure.

Edgar Filing: BankGuam Holding Co - Form 10-Q

There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of September 30, 2016, and December 31, 2015, are also presented in the table below.

	Actual		Purposes		Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			For Capital Adequacy		Under Prompt Corrective	
To Be Well Capitalized						
At September 30, 2016:						
Total capital (to Risk Weighted Assets)	\$ 136,620	12.260%	\$ 96,123	8.625 %	\$ 111,447	10.000 %
Tier 1 capital (to Risk Weighted Assets)	\$ 122,671	11.010%	\$ 73,834	6.625 %	\$ 89,158	8.000 %
Tier 1 capital (to Average Assets)	\$ 122,671	6.970 %	\$ 70,401	4.000 %	\$ 88,002	5.000 %
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)	\$ 122,671	11.010%	\$ 57,117	5.125 %	\$ 72,441	6.500 %
At December 31, 2015:						
Total capital (to Risk Weighted Assets)	\$ 128,119	12.452%	\$ 82,315	8.000 %	\$ 102,893	10.000 %
Tier 1 capital (to Risk Weighted Assets)	\$ 115,242	11.200%	\$ 61,736	6.000 %	\$ 82,315	8.000 %
Tier 1 capital (to Average Assets)	\$ 115,242	7.404 %	\$ 62,256	4.000 %	\$ 77,820	5.000 %
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)	\$ 115,242	11.200%	\$ 46,302	4.500 %	\$ 66,881	6.500 %

Since the formation of the Company in 2011, our assets have grown by 66.4% (\$732.7 million), while our stockholders' equity has grown by 39.3% (\$34.7 million, including \$30.0 million in retained earnings). The growth in assets has pressured our capital ratios, but those ratios remain well above the well capitalized standards. To provide sufficient capital resources to expand our holdings, the Board has approved the issuance of an additional \$5.0 million in common stock, of which \$2.9 million was issued in 2015, and an additional \$10.0 million in preferred stock, of which \$1.7 million has been issued during 2016.

Non-Cumulative Perpetual Preferred Stock

Commencing September 15, 2016, the Company offered a private placement of securities for the issuance and sale of an aggregate of 10,000 shares of its new Series A Non-Cumulative Perpetual Preferred Stock. This offer carried a subscription price of \$1,000.00 per share and a yield of 5.5% (the "Series A Preferred Stock") to various accredited and a limited number of non-accredited investors for total proceeds of up to \$10 million (the "Offering"). Each subscriber can purchase a minimum number of Series A Preferred Stock equivalent to at least \$250,000 (250 shares). The Offering agreement contains customary warranties, representations and indemnification provisions, and will expire on December 31, 2016. At September 30, 2016, 1,750 of these shares were issued and outstanding.

Note 9 – Off-Balance-Sheet Activities

The Bank is a party to credit-related financial instruments with off-balance-sheet risk to meet the financing needs of its customers in the normal course of business. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in addition to the amount reflected in the condensed consolidated financial statements.

The Bank's exposure to credit loss, in the event of nonperformance by the other parties to financial instruments for loan commitments and letters of credit, is represented by the contractual amount of these instruments. The Bank follows the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of financial instruments with off-balance-sheet risk at September 30, 2016, and December 31, 2015, is as follows:

	September 30, 2016	December 31, 2015
Commitments to extend credit	\$ 137,204	\$ 153,412
Letters of credit:		
Standby letters of credit	\$ 48,846	\$ 49,256
Other letters of credit	3,334	6,546
Total	\$ 52,180	\$ 55,802

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for some lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party or the shipment of merchandise from a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. The majority of all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers, and similar credit underwriting standards are applied. The Bank generally holds collateral supporting those commitments.

The Bank considers its standby and other letters of credit to be payment guarantees. At September 30, 2016, the maximum undiscounted future payments that the Bank could be required to make for all outstanding letters of credit were \$52.2 million. All of these arrangements mature within one year. The Bank has recourse to recover from the customer any amounts paid under these guarantees. Most of the guarantees are fully collateralized; however, several are unsecured. The Bank had recorded \$16.5 thousand in reserve liabilities associated with these guarantees at September 30, 2016.

Note 10 – Income Taxes

We record an amount equal to the tax credits, tax loss carry-forwards and tax deductions (“tax benefits”) that we believe will be available to us to offset or reduce the amounts of our income taxes in future periods as a deferred tax asset on our balance sheet. Under applicable federal and state income tax laws and regulations in the United States, such tax benefits will expire if not used within specified periods of time. Accordingly, the ability to fully use our deferred tax asset depends on the amount of taxable income that we generate during those time periods. At least once each year, or more frequently if warranted, we make estimates of future taxable income that we believe we are likely to generate during those future periods. If we conclude, on the basis of those estimates and the amount of the tax benefits available to us, that it is more likely than not that we will be able to fully utilize those tax benefits prior to their expiration, we recognize the deferred tax asset in full on our balance sheet. On the other hand, if we conclude on the basis of those estimates and the amount of the tax benefits available to us that it has become more likely than not that we will be unable to utilize those tax benefits in full prior to their expiration, then we would establish a (or increase any existing) valuation allowance to reduce the deferred tax asset on our balance sheet to the amount which we believe we are more likely than not to be able to utilize. Such a reduction is implemented by recognizing a non-cash charge that would have the effect of increasing the provision, or reducing any credit, for income taxes that we would otherwise have recorded in our statements of income. The determination of whether and the extent to which we will be able to utilize our deferred tax asset involves significant management judgments and assumptions that are subject to period-to-period changes as a result of changes in tax laws, changes in the market, or economic conditions that could affect our operating results or variances between our actual operating results and our projected operating results, as well as other factors.

A valuation allowance of \$2.7 million has been provided at September 30, 2016, to reduce the deferred tax asset because, in management’s opinion, it is more likely than not that less than the entire amount will be realized. The portion of the deferred tax asset with valuation allowance is attributable to a net operating loss carry forward from the Bank’s CNMI operations. The charge from the net operating loss has already been realized in the accompanying statements of income as a result of the Guam income tax code.

The difference between the effective income tax expense and the income tax expense computed at the Guam statutory rate was due to nontaxable interest income earned on loans to the Government of Guam.

The Bank files income tax returns in Guam, the CNMI and the State of California. The Bank is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2009.

Note 11 – Fair Value Measurements

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820 “Fair Value Measurements and Disclosures”, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances there are no quoted market prices for the Bank’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The fair value guidance of ASC Topic 820 provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under then-current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under then-current market conditions depends on the facts and circumstances, and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under then-current market conditions.

Fair Value Hierarchy

In accordance with the guidance of ASC Topic 820, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Financial assets measured at fair value on a recurring basis as of September 30, 2016, and December 31, 2015, are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At September 30, 2016				
U.S. treasury notes and bonds	\$ 73,483	\$ -	\$ -	\$73,483
U.S. government agency and sponsored enterprise (GSE) debt securities	-	25,337	-	25,337
U.S. government agency pool securities	-	183,204	-	183,204
U.S. government agency or GSE mortgage-backed securities	-	62,585	-	62,585
Other assets:				
Mortgage servicing rights	-	-	1,530	1,530
Total	\$ 73,483	\$ 271,126	\$ 1,530	\$346,139

Edgar Filing: BankGuam Holding Co - Form 10-Q

At December 31, 2015

U.S. treasury notes and bonds	\$ 106,022	\$ -	\$ -	\$ 106,022
U.S. government agency and sponsored enterprise (GSE) debt securities	-	-	-	-
U.S. government agency pool securities	-	50,904	-	50,904
U.S. government agency or GSE mortgage-backed securities	-	70,609	-	70,609
Other assets:				
Mortgage servicing rights	-	-	1,462	1,462
Total	\$ 106,022	\$ 121,513	\$ 1,462	\$ 228,997

There were no liabilities measured at fair value on a recurring basis as of September 30, 2016, and December 31, 2015.

Edgar Filing: BankGuam Holding Co - Form 10-Q

During the nine months ended September 30, 2016 and 2015, the changes in Level 3 assets measured at fair value on a recurring basis are as follows:

	Nine Months Ended September 30, 2016 2015	
Beginning balance	\$1,462	\$1,405
Realized and unrealized net gains:		
Included in net income	64	21
Included in other comprehensive income	-	-
Purchases, issuance and settlements		
Purchases	-	-
Issuances	4	49
Settlements	-	-
Ending balance	\$1,530	\$1,475

The valuation technique used for Level 3 MSR's is their discounted cash flow. Inputs considered in determining Level 3 pricing include the anticipated prepayment rates, discount rates, and cost to service. Significant increases or decreases in any of those inputs in isolation would result in a significantly lower or higher fair value measurement.

The following table presents quantitative information about the valuation technique and unobservable inputs applied to Level 3 fair value measurements for financial instruments measured at fair value on a recurring basis:

	Estimated Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs
September 30, 2016				
Financial instrument:				
		Discounted		6.08%
			Discount Rate	-
MSRs	\$ 1,530	Cash Flow		9.25%
			Weighted Average Prepayment Rate (Public Securities Association)	125%

There were no transfers into or out of the Bank's Level 3 financial instruments for the periods ended September 30, 2016, and December 31, 2015.

Nonrecurring Fair Value Measurements

Under certain circumstances, the Bank makes adjustments to fair value for assets and liabilities even though they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the

Edgar Filing: BankGuam Holding Co - Form 10-Q

consolidated statements of condition by caption and by level in the fair value hierarchy at September 30, 2016, and December 31, 2015, for which a nonrecurring change in fair value has been recorded:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2016				
Financial assets:				
Loans, net				
Impaired loans	\$ -	\$ -	\$ 13	\$13
Non-financial assets:				
Other real estate owned	\$ -	\$ -	\$ 2,540	\$2,540
December 31, 2015				
Financial assets:				
Loans, net				
Impaired loans	\$ -	\$ -	\$ 5	\$5
Non-financial assets:				
Other real estate owned	\$ -	\$ -	\$ 3,460	\$3,460

The fair value of loans subject to write downs is estimated using the appraised value of the underlying collateral, discounted as necessary due to management's estimates of changes in economic conditions, less the estimated costs of selling the assets. During the nine months ended September 30, 2016, one loan was written down as being collateral deficient in the amount of \$13 thousand from its carrying value.

Additionally, the Bank also makes adjustments to nonfinancial assets and liabilities even though they are not measured at fair value on an ongoing basis. With the exception of other real estate owned, the Bank does not have nonfinancial assets or liabilities for which a nonrecurring change in fair value has been recorded during the periods ended September 30, 2016, and December 31, 2015.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents

The carrying amount of cash and short-term instruments approximates fair value based on the short-term nature of the assets.

Interest-Bearing Deposits in Banks

Fair values for other interest-bearing deposits are estimated using discounted cash flow analyses based on current interest rates or yields for similar types of deposits.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank of Des Moines ("FHLB"). As a member, we are required to own stock of the FHLB, the amount of which is based primarily on the level of our borrowings from that institution. We also have the right to acquire additional shares of stock in the FHLB; however, to date, we have not done so. The fair value of the FHLB stock is equal to its carrying amount, is classified as restricted securities and is periodically evaluated for impairment based on our assessment of the ultimate recoverability of our investment in that stock. Any cash or stock dividends paid to us on such stock are reported as income.

Investment Securities

When quoted prices are available in an active market, the Bank classifies the securities within Level 1 of the valuation hierarchy. Level 1 securities include U.S. Treasury notes and bonds.

If quoted market prices are not available, the Bank estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U.S. GSE obligations, U.S. government agency pool securities, and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Bank would classify those securities in Level 3. At September 30, 2016, and December 31, 2015, the Bank did not have any Level 3 investment securities.

Loans

For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, based upon interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable. Loans are classified in Level 3.

Mortgage Servicing Rights

The fair value of MSR is determined using models which depend on estimates of prepayment rates, discount rates and costs to service. MSR is classified in Level 3.

Deposit Liabilities

The fair values disclosed for demand deposits (for example, interest and non-interest checking, passbook savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies current market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits. Deposit liabilities are classified in Level 3.

Short-Term Borrowings

The carrying amounts of federal funds purchased and Federal Home Loan Bank (FHLB) advances maturing within ninety days approximate their fair values.

Long-Term Borrowings

The fair value of FHLB advances maturing after ninety days is determined based on expected present value techniques using current market interest rates for advances with similar terms and remaining maturities.

Accrued Interest

The carrying amount of accrued interest approximates fair value.

Investment in Unconsolidated Subsidiary

Investments in subsidiaries where the Company can exert significant influence, but not control, are accounted for under the equity method. Fair value currently approximates carrying value based on the third-party appraisal received in connection with the acquisition in May 2016.

Off-Balance Sheet Commitments and Contingent Liabilities

Management does not believe it is practicable to provide an estimate of fair value for off-balance sheet commitments or contingent liabilities because of the uncertainty involved in attempting to assess the likelihood and timing of a commitment being drawn upon, coupled with a lack of an established market for these instruments and the wide diversity of fee structures.

Fair Value of Other Financial Instruments

The estimated fair values of the Bank's financial instruments, excluding those assets recorded at fair value on a recurring basis on the Bank's consolidated statements of condition, are as follows:

	Carrying Amount	Estimated fair value		
		Level 1	Level 2	Level 3
September 30, 2016				
Financial assets:				
Cash and cash equivalents	\$199,856	\$199,856	\$-	\$-
Restricted cash	400	400	-	-
Federal Home Loan Bank stock	1,855	-	1,855	-
Investment securities held-to-maturity	98,320	-	101,205	-
Investment in unconsolidated subsidiary	3,075	-	-	3,075
Loans	1,121,659	-	-	1,114,603
Total	\$1,425,165	\$200,256	\$103,060	\$1,117,678
Financial liabilities:				
Deposits	1,696,030	-	-	1,685,624
Total	\$1,696,030	\$-	\$-	\$1,685,624
December 31, 2015				
Financial assets:				
Cash and cash equivalents	\$100,799	\$100,799	\$-	\$-
Restricted cash	400	400	-	-
Federal Home Loan Bank stock	1,762	-	1,762	-
Investment securities held-to-maturity	100,519	-	101,924	-
Loans	1,054,250	-	-	1,046,589
Total	\$1,257,730	\$101,199	\$103,686	\$1,046,589
Financial liabilities:				
Deposits	\$1,422,671	\$-	\$-	\$1,416,843
Total	\$1,422,671	\$-	\$-	\$1,416,843

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of the Company and its wholly-owned subsidiaries, the Bank and BGIIS. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of operations. This discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the accompanying notes presented elsewhere in this Quarterly Report.

Overview

BankGuam Holding Company (the “Company”) is a Guam corporation organized on October 29, 2010, to act as a holding company of Bank of Guam (the “Bank”), a 23-branch bank serving the communities in Guam, the Commonwealth of the Northern Mariana Islands (CNMI), the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), the Republic of Palau (ROP), and San Francisco, California. On August 15, 2011, the Company acquired all of the outstanding common stock of the Bank in a holding company formation transaction.

In August 2015, the Company chartered a second subsidiary, BankGuam Investment and Insurance Services (“BGIIS”), in an effort to enhance the options and opportunities of our customers to build future income and wealth. BGIIS was capitalized in the amount of \$300 thousand during the first quarter of 2016, and was in full operation by the end of May 2016.

In May 2016, the Company entered into a Stock Purchase Agreement to acquire 25% of ASC Trust Corporation, a Guam trust company. In July 2016, subsequent to the approval of the Federal Reserve Bank of San Francisco in June 2016, the purchase was executed. The Company took on \$3.5 million in subordinated debt in connection with the purchase to finance the transaction. The Agreement provides for the acquisition of an additional 20% of the stock of ASC Trust Corporation in April 2019, and another 25% in April 2021, with both future purchases subject to regulatory approval. The Agreement contains customary warranties, representations and indemnification provisions.

Other than holding the shares of the Bank, BGIIS and ASC Trust Corporation, the Company conducts no significant activities, although it is authorized, with the prior approval of its principal regulator, the Board of Governors of the Federal Reserve System, to engage in a variety of activities related to the business of banking. Currently, substantially all of the Company’s operations are conducted and substantially all of the assets are owned by the Bank, which accounts for substantially all of our consolidated revenues, expenses and operating income. The Bank’s headquarters is located in Hagåtña, Guam, and the Bank provides a variety of financial services to individuals, businesses and government entities through its branch network. The Bank’s primary deposit products are demand deposits, savings and time certificates of deposit, and its primary lending products are consumer, commercial and real estate loans. The Bank also provides many other financial services to its customers. BGIIS is a registered investment company, primarily involved in providing investment advisory services and trading securities for its customers. ASC Trust Corporation is primarily involved in administering 401(k) retirement plans and other employee benefit programs for its customers.

Summary of Operating Results

The following table provides unaudited comparative information with respect to our results of operations for the three and nine months ended September 30, 2016 and 2015, respectively:

Edgar Filing: BankGuam Holding Co - Form 10-Q

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016 Amount	2015 Amount	% Change	2016 Amount	2015 Amount	% Change
Interest income	\$18,770	\$17,765	5.7 %	56,175	\$52,086	7.9 %
Interest expense	580	462	25.5 %	1,554	1,435	8.3 %
Net interest income before provision for loan losses	18,190	17,303	5.1 %	54,621	50,651	7.8 %
Provision for loan losses	385	1,125	-65.8 %	2,715	3,375	-19.6 %
Net interest income after provision for loan losses	17,805	16,178	10.1 %	51,906	47,276	9.8 %
Non-interest income	3,756	3,006	25.0 %	10,135	7,554	34.2 %
Non-interest expense	16,362	14,965	9.3 %	47,982	43,761	9.6 %
Income before income taxes	5,199	4,219	23.2 %	14,059	11,069	27.0 %
Income tax expense	1,587	1,149	38.1 %	4,123	2,846	44.9 %
Net income	\$3,612	\$3,070	17.7 %	\$9,936	\$8,223	20.8 %
Net income per common share						
Basic net income	\$0.39	\$0.34		\$1.07	\$0.92	
Diluted net income	\$0.39	\$0.34		\$1.07	\$0.92	

As the above table indicates, our net income increased in the three months ended September 30, 2016, as compared to the corresponding period in 2015. In the three months ended September 30, 2016, we recorded net income after taxes of \$3.6 million, an increase of \$542 thousand (or 17.7%) as compared to the same period in 2015. These results were most significantly impacted by: (i) higher net interest income, which increased by \$887 thousand, supplemented by an increase of \$750 thousand in non-interest income; (ii) an increase of \$1.4 million in non-interest expense; (iii) a decrease of \$750 thousand in our provision for loan losses; and, (iv) an increase of \$438 thousand in income tax expense. The increase in net interest income was due to an increase in total interest income of \$1.3 million, generated primarily by an increase of \$785 thousand in earnings on our loan portfolio and an increase of \$131 thousand in our earnings from deposits with banks (including the Federal Reserve Bank of San Francisco), only partially offset by the increase in total interest expense by \$118 thousand that resulted from the increase of \$167.3 million in our average interest-

bearing liabilities. The increase in non-interest expenses in the three months ended September 30, 2016, as compared to the same period in 2015, was largely attributed to an increase in salaries and employee benefits expenses, which went up by \$793 thousand, an increase of general, administrative and other expenses of \$329 thousand and an increase of \$282 thousand in equipment and depreciation expenses, partially offset by a decrease of \$230 thousand in expenses associated with our other real estate owned (OREO). The decrease in our provision for loan losses was made possible by the payoff of a previously charged-off loan and a reversal of its impact on our allowance for loan losses.

During the nine months ended September 30, 2015, our net income after taxes increased by \$1.7 million (20.8%) in comparison to the first nine months of 2015, primarily due to an increase of \$4.0 million in net interest income and an increase of \$2.6 million in non-interest income, supplemented by a reduction of \$660 thousand in our provision for loan losses compared to the first nine months of 2015, and partially offset by increases of \$4.2 million in non-interest expense and \$1.3 million in income tax expense. The increase in net interest income was due to an increase of \$4.1 million in total interest income, which resulted from an increase of \$3.5 million in income from our loan portfolio, supplemented by an increase of \$316 thousand in earnings from our investment securities and of \$250 thousand in our earnings from deposits with other banks. The increase in our non-interest income was primarily the result of increases of \$1.0 million in our income from merchant services, \$828 thousand in service charges and fees, \$340 thousand in net gains on investment securities and \$294 thousand in other income. The increase in non-interest expense was caused by increases of \$2.5 million in salaries and employee benefits, \$1.0 million in general, administrative and other expenses, \$621 thousand in equipment and depreciation expense, and \$377 thousand in professional services expense, all partially offset by reductions of \$311 thousand in occupancy expense and \$300 thousand in OREO expenses. The increase in income tax expense is the result of our higher pre-tax income of \$3.0 million combined with a higher effective income tax rate.

The following table shows the decrease in our net interest margin in the three and nine months ended September 30, 2016, but it also indicates the impact that the increase in our net income had on our annualized returns on average assets and average equity during that period, as compared to the corresponding three- and nine-month periods of 2015, despite the lower net interest margin:

	Three Months Ended September 30, 2016		2015		Nine Months Ended September 30, 2016		2015	
Net interest margin	4.26	%	4.76	%	4.46	%	4.71	%
Return on average assets	0.81	%	0.79	%	0.77	%	1.08	%
Return on average equity	11.81	%	11.35	%	11.19	%	15.54	%

Critical Accounting Policies

The Company's significant accounting policies are set forth in Note 2 in the Notes to the Company's Annual Report on Form 10-K for 2015 filed with the SEC on March 14, 2016, and Note 2 of Item 1 in this report. Our unaudited condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and general practices in the banking industry. Certain of those accounting policies are considered critical accounting policies because they require us to make assumptions and judgments regarding circumstances or trends that could affect the carrying values of our material assets, such as assumptions regarding economic conditions or trends that could impact our ability to fully collect our outstanding loans or ultimately realize the carrying values of certain of our other assets, such as securities that are available for sale. If

adverse changes were to occur in the events, trends or other circumstances on which our assumptions or judgments have been based, or other unanticipated events were to happen that might affect our operating results, it could become necessary under GAAP for us to reduce the carrying values of the affected assets in our Statement of Condition. In addition, because reductions in the carrying values of assets are sometimes effectuated by or require charges to income, such reductions also may have the effect of reducing our income. The following is a brief description of the Company's current accounting policies involving significant valuation judgments:

Loans and Interest on Loans

Loan receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances, reduced by any charge-offs or specific valuation allowances and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment in income over the life of the related loan.

Loans on which the accrual of interest has been discontinued are designated as non-accruing loans. The accrual of interest on loans is discontinued when principal and/or interest is past due 90 days or more based on the contractual terms of the loan and/or when, in the opinion of management, there is a reasonable doubt as to collectability, unless such loans are well-collateralized and in the process of collection. When loans are placed in non-accrual status, all interest previously accrued but not collected is reversed as a charge against current period interest income. Subsequent payments received on such loans are generally applied as a reduction to the loan principal balance, unless the likelihood of further loss is remote whereby cash interest payments may be recorded during the time the loan is on non-accrual status. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, all remaining principal and interest is estimated to be fully collectible, there has been at least six months of sustained repayment performance since the loan was placed on non-accrual, and/or management believes, based on current information, that such loan is no longer impaired.

Management considers a loan to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all of the amounts due according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are discounted at the loan's original effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank performs direct write-downs of impaired loans with a charge to the allocated component of the allowance for loan losses, thereby reducing the allocated component of the allowance to zero at the end of each reporting period.

Allowance for Loan Losses

The Bank maintains its allowance for loan losses at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio as of the balance sheet date. The amount of the allowance is based on management's periodic evaluation of the collectability of the loan portfolio, including the nature and volume of the portfolio, credit concentrations, trends in historical loss experience, the level of certain classified and impaired loans, and economic conditions and the related impact on specific borrowers that may affect the borrower's ability to repay. The allowance is increased by provisions for loan losses, which are charged against net interest earnings, and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the allowance for loan losses. Because of uncertainties in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change.

Other Real Estate Owned

Real estate and other property acquired in full or partial settlement of loan obligations is referred to as other real estate owned ("OREO"). OREO is originally recorded in the Bank's unaudited condensed financial statements at fair value of the collateral property, less any estimated costs to sell the underlying assets. When property is acquired through foreclosure or surrendered in lieu of foreclosure, the Bank measures the fair value of the property acquired against its recorded investment in the loan. If the fair value of the property at the time of acquisition is less than the recorded investment in the loan, the difference is charged to the allowance for loan losses. Any subsequent fluctuations in the fair value of the OREO are recorded against a valuation allowance for other real estate owned, established through a charge to non-interest expense. All related operating or maintenance costs are charged to non-interest expense as incurred. Any subsequent gains or losses on the sale of OREO are recorded in other income or expense as incurred.

Investment Securities

In accordance with U.S. GAAP, securities are classified in three categories and accounted for as follows: (i) securities that the Bank has the intent and ability to hold to maturity are classified as "held-to-maturity" and are measured at amortized cost; (ii) securities bought and held principally for the purpose of selling in the near term are classified as "trading" securities and are measured at fair value, with unrealized gains and losses reflected in earnings; and, (iii) securities not classified as either held-to-maturity or trading are classified as "available-for-sale" securities and are measured at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of stockholders' equity. Where available, the fair values of available-for-sale securities are based on quoted market prices. If quoted market prices are not available, fair values are estimated from the quoted prices of similar instruments or through the use of other observable data supporting a valuation model. Gains and losses on sales of investment securities are determined on the specific identification method. Premiums and discounts are amortized or accreted using the interest method over the expected lives of the related securities. The Bank does not hold securities for trading purposes.

Results of Operations

Net Interest Income

Net interest income, the primary component of the Bank's income, refers to the difference between the interest earned on loans, investment securities and other interest-earning assets, and the interest paid on deposits and other borrowed funds. Our interest income and interest expense are affected by a number of factors, some of which are outside of our control, including national and local economic conditions, the monetary policies of the Federal Reserve's Open Market Committee which affect interest rates, competition in the marketplace for loans and deposits, the demand for loans and the ability of borrowers to meet their payment obligations. Net interest income, when expressed as a percentage of

average earning assets, is a banking organization's "net interest margin."

The following table sets forth our interest income, interest expense and net interest income, and our annualized net interest margin for the three and nine months ended September 30, 2016 and 2015, respectively:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016 Amount	2015 Amount	% Change	2016 Amount	2015 Amount	% Change
Interest income	\$18,770	\$17,765	5.66 %	\$56,175	\$52,086	7.85 %
Interest expense	580	462	25.54 %	1,554	1,435	8.29 %
Net interest income	\$18,190	\$17,303	5.13 %	\$54,621	\$50,651	7.84 %
Net interest margin	4.26 %	4.71 %	-0.45 %	4.46 %	4.66 %	-0.20 %

Net interest income increased by 5.1% for the three months ended September 30, 2016, as compared to the corresponding period in 2015. In the nine months ended September 30, 2016, net interest income increased by 7.8% in comparison to the nine months ended September 30, 2015.

For the three months ended September 30, 2016, net interest income rose by \$887 thousand as compared to the same period in 2015. Total interest income increased by \$1.0 million, principally because of a \$785 thousand increase in interest earned on loans, partially offset by a \$118 thousand increase in total interest expense. The reduction in our net interest margin was the result of decreases in the yields on significantly larger average balances in our loans and our investment securities portfolio.

During the first nine months ended September 30, 2016, net interest income was \$4.0 million higher than in the year-earlier period due to an increase of \$4.1 million in total interest income. The rise in interest income was due primarily to higher earnings of \$3.5 million on our loan portfolio, supplemented by \$316 thousand more income from our investment securities and an increase of \$248 thousand in returns on our short term investments. The decrease in our net interest margin was the result of our average total earning assets growing at a higher pace (13.8%) than our net interest income, which rose by 7.8%.

Average Balances

Distribution, Rate and Yield

The following table sets forth information regarding our average balance sheet, annualized yields on interest-earning assets and interest rates on interest-bearing liabilities, the interest rate spread and the interest rate margin for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016			2015				
	Average		Average Yield/Rate	Average		Average Yield/Rate		
	Balance	Interest Earned/Paid		Balance	Interest Earned/Paid			
Interest earning assets:								
Short term investments ¹	\$156,485	\$ 163	0.42 %	\$85,086	\$ 32	0.15 %		
Federal Funds sold	-	-	0.00 %	-	-	0.00 %		
Investment Securities ²	410,833	1,245	1.21 %	328,663	1,156	1.41 %		
Loans ³	1,139,783	17,362	6.09 %	1,054,896	16,577	6.29 %		
Total earning assets	1,707,101	18,770	4.40 %	1,468,645	17,765	4.84 %		
Noninterest earning assets	80,094			86,451				
Total Assets	\$1,787,195			\$1,555,096				
Interest-bearing liabilities:								
Interest-bearing checking accounts	\$230,943	\$ 65	0.11 %	\$166,464	\$ 48	0.12 %		
Money market and savings accounts	914,041	408	0.18 %	803,496	373	0.19 %		
Certificates of deposit	40,854	35	0.34 %	52,048	41	0.32 %		
Other borrowings	3,452	72	2.09 %	-	-	0.00 %		
Total interest-bearing liabilities	1,189,290	580	0.20 %	1,022,008	462	0.18 %		
Non-interest bearing liabilities	475,613			424,936				
Total Liabilities	1,664,903			1,446,944				
Stockholders' equity	122,292			108,152				
Total Liabilities and Stockholders' Equity	\$1,787,195			\$1,555,096				
Net interest income		\$ 18,190			\$ 17,303			
Interest rate spread			4.20 %			4.66 %		
Net interest margin			4.26 %			4.71 %		

	Nine Months Ended September 30, 2016			2015				
	Average		Average Yield/Rate	Average		Average Yield/Rate		
	Balance	Interest Earned/Paid		Balance	Interest Earned/Paid			
Interest earning assets:								
Short term investments ¹	\$132,162	\$ 369	0.37 %	\$95,837	\$ 121	0.17 %		
Federal Funds sold	-	-	0.00 %	-	-	0.00 %		
Investment Securities ²	375,487	3,696	1.31 %	324,558	3,380	1.39 %		

Edgar Filing: BankGuam Holding Co - Form 10-Q

Loans ³	1,125,467	52,110	6.17	%	1,027,953	48,585	6.30	%
Total earning assets	1,633,116	56,175	4.59	%	1,448,348	52,086	4.79	%
Noninterest earning assets	78,322				74,938			
Total Assets	\$1,711,438				\$1,523,286			
Interest-bearing liabilities:								
Interest-bearing checking accounts	\$204,889	\$ 174	0.11	%	\$154,789	\$ 131	0.11	%
Money market and savings accounts	867,622	1,167	0.18	%	795,562	1,180	0.20	%
Certificates of deposit	42,186	107	0.34	%	52,614	124	0.31	%
Other borrowings	2,050	106	6.89	%	-	-	0.00	%
Total interest-bearing liabilities	1,116,747	1,554	0.19	%	1,002,965	1,435	0.19	%
Non-interest bearing liabilities	476,293				414,478			
Total Liabilities	1,593,040				1,417,443			
Stockholders' equity	118,398				105,843			
Total Liabilities and Stockholders' Equity	\$1,711,438				\$1,523,286			
Net interest income		\$ 54,621				\$ 50,651		
Interest rate spread			4.40	%			4.60	%
Net interest margin			4.46	%			4.66	%

33

(1) Short term investments consist of interest-bearing deposits that we maintain with other financial institutions.

(2) Includes all investment securities in the Available-for-Sale and the Held-to-Maturity classifications.

(3) Loans include the average balance of non-accrual loans.

For the three months ended September 30, 2016, our total average earning assets increased by \$238.5 million as compared to the same period in 2015, attributed to the \$84.9 million increase in our average loan portfolio, the \$82.2 million increase in our average investment securities portfolio and the \$71.4 million increase in average short term investments. Average noninterest earning assets decreased by \$6.4 million, principally due to a \$4.9 million decrease in cash and due from banks and a \$2.4 million decline in other assets. The overall year-over-year growth of 17.3% in our average earning assets was the result of continued growth in our deposit base, new interest-bearing other borrowings and an increase in non-interest bearing liabilities, supplemented by growth in our average stockholders' equity. In the three months ended September 30, 2016, average total interest-bearing liabilities increased by \$167.3 million in comparison to the three months ended September 30, 2015, comprised of a \$110.5 million increase in average interest-bearing money market and savings accounts, and an increase in average interest-bearing checking accounts by \$64.5 million that resulted from improvements in the level of economic activity in the island markets that we serve, but also reflects a reduction of \$11.2 million in average interest-bearing time deposits and taking on \$3.5 million in average other borrowings. The additional increase of \$50.7 million in average non-interest bearing liabilities, primarily in traditional checking accounts, resulted in an overall increase of \$218.0 million in average total liabilities. During the third quarter of 2016, average stockholders' equity increased by \$14.1 million (13.1%) in comparison to the year-earlier period.

Our interest rate spread decreased by 0.46% and our net interest margin dropped by 0.45% in the three months ended September 30, 2016, as compared to the same period in 2015. The decrease in our interest rate spread is primarily attributed to the 0.44% decrease in the average yield on our interest earning assets. The remainder of the decrease was due to a 0.02% increase in the average cost of our interest-bearing liabilities. The 0.45% decrease in our net interest margin resulted from the 16.4% increase in our average total interest-earning assets exceeding the 5.1% increase in our net interest income.

During the first nine months ended September 30, 2016, our average earning assets increased by \$184.8 million (12.8%) from the average for the nine months ended September 30, 2015, due to an increase of \$97.5 million in our average loan portfolio, growth of \$50.9 million in our average holdings of investment securities and a rise of \$36.3 million in our short term investments. In the nine months ended September 30, 2016, our average noninterest earning assets increased by \$3.4 million in comparison to the nine months ended September 30, 2015, notably because of a rise of \$3.2 million in other assets and a \$1.4 million increase in cash and due from banks, raising our total average assets to \$1.71 billion, an increase of \$188.2 million (12.4%) from the same period during the previous year. The increase in average total assets during the first nine months ended September 30, 2016, compared to the previous year was funded by an increase in total average liabilities of \$175.6 million, supplemented by the growth in our average stockholders' equity of \$12.6 million (11.9%). Aside from the growth of \$61.8 million in average non-interest bearing liabilities, which are primarily traditional checking account balances, the \$113.8 million increase in our average total interest-bearing liabilities was comprised of an expansion of \$72.1 million in our average money market and savings account balances, a \$50.1 million increase in average interest-bearing checking accounts and taking on \$2.1 million in average other borrowings, partially offset by a decrease of \$10.4 million in average time deposit balances.

Our interest rate spread and net interest margin both decreased by 0.20% during the first nine months ended September 30, 2016 when compared to the same period of 2015. The reduction in our interest rate spread was the result of a decrease of 0.20% in the yield on our average earning assets, while the cost of our average interest-bearing liabilities remained unchanged at 0.19%. The lower yield on our average earning assets was primarily caused by a drop of 0.13% in the yield on our average loan balances and the reduction of 0.08% in the yield on our average

holdings of investment securities, but these were partially offset by the 0.20% increase in yield on our average short term investment. Our lower net interest margin during the nine months ended September 30, 2016, in comparison to the previous year resulted from the 7.8% growth in our net interest income not matching the 12.8% expansion of our average total earning assets. (Some of the figures in this and the previous three paragraphs may appear to differ from the preceding table due to rounding.)

Provision for Loan Losses

We maintain allowances to provide for possible loan losses that occur from time to time as a normal part of the banking business. As more fully discussed in Note 5 of the notes to the unaudited condensed consolidated financial statements in Item 1 of this Quarterly Report on Form 10-Q, an allowance for loan losses has been established by management in order to provide for those loans, which for a variety of reasons, may not be repaid in their entirety. The allowance is maintained at a level considered by management to be adequate to provide for probable losses during the holding period of the loan and is based on methodologies applied on a consistent basis with the prior year. Management's review of the adequacy of the allowance includes, among other things, loan growth, changes in the composition of the loan portfolio, an analysis of past loan loss experience and management's evaluation of the loan portfolio under current economic conditions.

The allowance for loan losses is based on estimates, and ultimate losses will vary from current estimates. The Bank recognizes that credit losses will be experienced and the risk of loss will vary with, among other things: general economic conditions; the type of loan being made; the credit worthiness of the borrower over the term of the loan; and, in the case of a collateralized loan, the quality of the collateral for such loan. The allowance for loan losses represents the Bank's best estimate of the allowance necessary to provide for probable losses in the portfolio as of the balance sheet date.

If management determines that it is necessary to increase the allowance for loan losses, a provision for loan losses is taken from current interest income and assigned to the allowance. For the nine months ended September 30, 2016, the Bank's provision for loan losses was \$2.7 million, which was \$660 thousand lower than during the corresponding period of 2015. In August 2016, the Bank took \$800 thousand from the provision back into income as the Bank received a large recovery from a previously classified loan that was paid off in June 2016.

The Bank will continue with its \$395 thousand monthly provision as management believes that it is sufficient to offset the incremental risk of loss inherent in the increase of \$70.0 million in our gross loan portfolio from \$1.07 billion at December 31, 2015 to \$1.14 billion at September 30, 2016. The allowance for loan losses at September 30, 2016, stood at \$15.4 million or 1.35% of total gross loans outstanding as of the balance sheet date. By comparison, we recorded net losses of previous and current-period loan charge-offs of \$975 thousand for the three-month period ended September 30, 2016. At September 30, 2016, our allowance for loan losses was \$15.4 million, an increase of \$1.2 million (8.5%) from the December 31, 2015. Given the improvements in the economies of our market, management deems this to be a conservative allowance that adequately addresses the increase in gross loans during the period. See “Analysis of Allowance for Loan Losses” in the Financial Condition Section of Management’s Discussion and Analysis of Financial Condition and Results of Operations for more detailed information.

Non-Interest Income

The table below represents the major components of non-interest income and the changes therein for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,				Nine Months Ended September 30,			
			Amount	Percent			Amount	Percent
	2016	2015	Change	Change	2016	2015	Change	Change
Service charges and fees	\$1,427	\$1,409	\$ 18	1.3 %	\$4,391	\$3,563	\$ 828	23.2 %
Investment securities gains, net	272	89	183	205.6 %	401	61	340	557.4 %
Income from merchant services	751	333	418	125.5 %	1,518	479	1,039	216.9 %
Income from cardholders	268	345	(77)	-22.3 %	963	1,069	(106)	-9.9 %
Trustee fees	240	180	60	33.3 %	598	412	186	45.1 %
Other income	798	650	148	22.8 %	2,264	1,970	294	14.9 %
Total Non-Interest Income	\$3,756	\$3,006	\$ 750	25.0 %	\$10,135	\$7,554	\$2,581	34.2 %

For the three months ended September 30, 2016, non-interest income totaled \$3.8 million, which represented an increase of \$750 thousand (25.0%) as compared to the same period in 2015. The growth is primarily attributed to the \$418 thousand increase in income from merchant services, our charges to merchants for which we perform credit and debit card clearings. The increase in income from merchant services was primarily the result of a correction to a billing arrangement.

Our non-interest income during the nine months ended September 30, 2016 increased by \$2.6 million (34.2%) from the same period a year earlier. Much of this increase, in the amount of \$1.0 million, was due to an jump in income from merchant services that resulted from the billing correction mentioned in the previous paragraph, an increase of \$828 thousand in service charges and fees because of a new fee related to low-balance savings accounts, higher net gains on our investment securities portfolio that resulted from a rise in securities prices during the first half of 2016, and the \$294 thousand rise in other income. The increase in other income resulted primarily from the increase of \$196 thousand in sundry recoveries, including the recovery of \$150 thousand of prior year OREO reserve for a property that was sold this year, along with an increase of \$50 thousand in foreign currency sold.

Non-interest Expense

Edgar Filing: BankGuam Holding Co - Form 10-Q

The table below represents the major components of non-interest expense and the changes for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2016	2015	Amount	Percent	2016	2015	Amount	Percent	
	Amount	Amount	Change	Change	Amount	Amount	Change	Change	
Non-Interest Expense:									
Salaries & employee benefits	\$8,170	\$7,377	\$793	10.75 %	\$23,665	\$21,184	\$2,481	11.71 %	
Occupancy	1,561	1,690	(129)	-7.63 %	4,679	4,990	(311)	-6.23 %	
Equipment and depreciation	1,983	1,701	282	16.58 %	5,490	4,869	621	12.75 %	
Insurance	406	411	(5)	-1.22 %	1,218	1,273	(55)	-4.32 %	
Telecommunications	421	382	39	10.21 %	1,222	1,113	109	9.79 %	
FDIC insurance assessment	327	328	(1)	-0.30 %	973	958	15	1.57 %	
Professional services	475	417	58	13.91 %	1,640	1,263	377	29.85 %	
Contract services	370	342	28	8.19 %	1,302	1,220	82	6.72 %	
Other real estate owned	84	138	(54)	-39.13 %	101	401	(300)	-74.81 %	
Stationery & supplies	217	206	11	5.34 %	702	555	147	26.49 %	
Training & education	263	217	46	21.20 %	777	725	52	7.17 %	
General, administrative & other	2,085	1,756	329	18.74 %	6,213	5,210	1,003	19.25 %	
Total Non-Interest Expense	\$16,362	\$14,965	\$1,397	9.34 %	\$47,982	\$43,761	\$4,221	9.65 %	

For the three months ended September 30, 2016, non-interest expense totaled \$16.4 million, which represented a \$1.4 million (9.3%) increase as compared to the same period in 2015. The increase is primarily attributed to the \$793 thousand increase in salaries and employee benefits, the \$329 thousand increase in general, administrative and other expenses, and the \$282 thousand increase in equipment and depreciation expense. The increase in salaries and employee benefits was due to normal, recurring merit increases in salaries and an increase in the number of full-time equivalent

employees needed to accommodate the growth of the Bank. The increase in general, administrative and other expense resulted primarily from increases of \$142 thousand in public relations and donations expenses, along with an \$88 thousand increase in deferred compensation expense and a \$60 thousand increase in legal expenses. The rise in equipment and depreciation expense was primarily due to a \$269 thousand increase in computer maintenance expenses.

For the nine months ended September 30, 2016, total non-interest expense increased by \$4.2 million (9.6%) from the year-earlier period, more than half of which was due to an increase of \$2.5 million in salaries and employee benefits, which was in part due to normal, recurring employee salaries increases, but also reflects the need for additional full-time-equivalent (FTE) personnel to accommodate the increased activity associated with our 16.6% growth in assets from September 30, 2015. We also experienced a \$1.0 million increase in general, administrative and other expenses, a rise of \$621 thousand in equipment and depreciation expense, and a jump of \$377 thousand in the cost of professional services, partially offset by a reduction of \$311 thousand in occupancy expenses and a decrease of \$300 thousand in OREO expenses. The rise in general, administrative and other expenses was primarily due to increases of \$458 thousand in advertising, public relations and donations expenses and \$204 thousand in sundry losses, along with a \$110 thousand increase in deferred compensation expense and an additional \$110 thousand in legal expenses, while the increase in equipment and depreciation expense resulted primarily from the \$545 thousand increase in computer maintenance expenses, primarily due to increases in information technology security measures. The substantial jump in professional services expense was caused by increased auditing expenses. The decrease in occupancy expenses was due to the lower monthly depreciation expense of our Headquarter building in the current year and the drop in OREO expenses was the result of higher prior year sale deficiencies and expenses incurred for a San Francisco OREO property.

Income Tax Expense

For the three months ended September 30, 2015, the Bank recorded an income tax expense of \$1.6 million. This was \$438 thousand higher than the income tax expense recorded for the corresponding period in 2015. The primary cause of this increase was the rise in pre-tax net income of \$980 thousand, with a correspondingly higher effective income tax rate, as well as the higher tax rate applied to our earnings from our loan portfolio as compared to the tax exempt status of portions of our earlier investment portfolio.

During the nine months ended September 30, 2016, our income tax expense was \$4.1 million, 44.9% higher than during the year-earlier period. This was partially due to the 27.0% rise in our income before income taxes and a higher effective tax rate due to the payoff of a substantial tax-exempt loan to a government entity.

Financial Condition

Assets

As of September 30, 2016, total assets were \$1.84 billion, an increase of 18.9% from the \$1.54 billion at December 31, 2015. This \$291.6 million increase was comprised of the \$118.0 million growth in our net investment portfolio, the \$99.1 million increase in total cash and cash equivalents, the \$67.4 million increase in our loan portfolio, the \$6.4 million rise in other assets, and the \$835 thousand increase in accrued interest receivable. Despite devoting more of our assets to net loans, we were not able to convert all of the rapid increase of \$273.4 million in our deposit base into loans, and the proportion of net loans to total assets decreased from 68.3% to 61.1%. Nearly all of the remaining growth in our deposit base was absorbed by available-for-sale securities and interest bearing deposits in banks. The remainder of the growth in assets resulted from the \$11.4 million increase in total stockholders' equity, the \$3.5 million in newly issued subordinated debt and the rise of \$3.3 million in other liabilities.

Interest-Earning Assets

The following table sets forth the composition of our interest-earning assets at September 30, 2016, as compared to December 31, 2015:

	September 30, 2016	December 31, 2015	Variance
Interest-earning deposits with financial institutions (including restricted cash)	\$ 173,992	\$ 72,663	\$ 101,329
Federal Home Loan Bank stock, at cost	1,855	1,762	93
Investment securities available for sale	344,609	227,535	117,074
Investment securities held to maturity	98,320	100,519	(2,199)
Loans, gross	1,139,545	1,070,588	68,957
Total interest-earning assets	\$ 1,758,321	\$ 1,473,067	\$ 285,254

Loans

Commercial & industrial loans are loans to businesses to finance capital purchases and improvements, or to provide cash flow for operations. Commercial mortgage loans include loans secured by real property for purposes such as the purchase or improvement of that property, wherein repayment is derived from the income generated by the real property or from business operations. Residential mortgage loans are loans to consumers to finance the purchase, improvement, or refinance of real property secured by 1-4 family housing units. Consumer loans include loans to individuals to finance personal needs and are either closed- or open-ended loans. Automobile loans fall under the consumer loan category, but the bulk of consumer loans is typically unsecured extensions of credit such as credit card debt and personal signature loans.

A summary of the balances of loans at September 30, 2016, and December 31, 2015, follows:

	September 30, 2016		December 31, 2015	
	Amount	Percent	Amount	Percent
Commercial				
Commercial & industrial	\$245,398	21.5 %	\$233,351	21.8 %
Commercial mortgage	533,817	46.8 %	420,049	39.2 %
Commercial construction	3,508	0.3 %	62,415	5.8 %
Commercial agriculture	749	0.1 %	-	0.0 %
Total commercial	783,472	68.8 %	715,815	66.9 %
Consumer				
Residential mortgage	144,712	12.7 %	144,007	13.5 %
Home equity	463	0.0 %	628	0.1 %
Automobile	29,635	2.6 %	26,541	2.5 %
Other consumer loans ¹	181,263	15.9 %	183,597	17.1 %
Total consumer	356,073	31.2 %	354,773	33.1 %
Gross loans	1,139,545	100.0 %	1,070,588	100.0 %
Deferred fee (income) costs, net	(2,527)		(2,179)	
Allowance for loan losses	(15,359)		(14,159)	
Loans, net	\$1,121,659		\$1,054,250	

¹Comprised of other revolving credit, installment loans, and overdrafts.

At September 30, 2016, total gross loans increased by \$69.0 million to \$1.14 billion from \$1.07 billion at December 31, 2015. The increase in loans was largely attributed to a \$67.7 million increase in commercial loans to \$783.5 million at September 30, 2016, from \$715.8 million at December 31, 2015. The increase in commercial loans was due to the \$113.8 million increase in commercial mortgage loans, the \$12.0 million increase in commercial & industrial loans, and the \$749 thousand issuance of a commercial agriculture loan, all partially offset by the decrease of \$58.9 million in the commercial construction portfolio as a large construction loan was rolled over into a commercial mortgage. The increase in commercial loans was supplemented by a \$1.3 million increase in consumer loans to \$356.1 million at September 30, 2016, up from \$354.8 million at December 31, 2015. The increase in consumer loans was due to the \$3.1 million increase in automobile loans and the \$705 thousand rise in residential mortgages, offset by the \$2.3 million decrease in other consumer loans and the \$165 thousand decline in home equity loans.

At September 30, 2016, loans outstanding were comprised of approximately 67.71% variable rate loans and 32.29% fixed rate loans.

Since it first opened in 1972, the Bank has expanded its operations and its branch network, first in Guam, then in the other islands of our region and in San Francisco, California. In the interests of enhancing performance and stability through market and industry diversification, the Bank has increased its focus on growth in the San Francisco area in recent years, adding personnel with experience and expertise in the Bay Area. The following table provides figures for loans, net of allowance and deferred fees, in the Bank's administrative regions for December 31, 2014 and 2015, and September 30, 2016:

Edgar Filing: BankGuam Holding Co - Form 10-Q

	At December 31,		At
	2014	2015	September 30, 2016
Guam	\$631,889	\$671,579	\$ 704,669
Commonwealth of the Northern Mariana Islands	\$66,055	\$71,975	\$ 70,998
The Freely Associated States of Micronesia *	\$47,227	\$56,301	\$ 68,958
California	\$222,222	\$254,395	\$ 277,034
Total	\$967,393	\$1,054,250	\$ 1,121,659

*The Freely Associated States (FAS) are comprised of the Federated States of Micronesia (Chuuk, Kosrae, Pohnpei and Yap), the Republic of Palau and the Republic of the Marshall Islands.

As the table indicates, the Bank's total net loans increased by 6.4% during the nine months ended September 30, 2016 and by 9.0% during 2015. By way of comparison, loans in the California region increased by 8.9% during the nine months ended September 30, 2016 and by 14.5% during 2015. While the Bank's overall loan portfolio continues to grow, the California region accounted for 37.0% of the \$86.9 million growth during 2015, and 33.6% of the \$67.4 million in net loan growth for the nine months ended September 30, 2016, providing continued support for the expansion of the Bank. Guam and the Freely Associated States contributed 49.1% and 18.8%, respectively, to loan growth during the nine months ended September 30, 2016, while the CNMI offset 1.4% of loan growth during that period.

Interest-Earning Deposits and Investment Securities

In the current lending and interest rate environment, and in order to maintain sufficient liquidity in the ordinary course of business and in anticipation of two large, scheduled withdrawals, the Bank held \$173.6 million in unrestricted interest-earning deposits with financial institutions at September 30, 2016, an increase of \$101.3 million, or 140.2%, from the \$72.3 million in such deposits at December 31, 2015. From December 31, 2015 to September 30, 2016, the Bank's combined investment portfolio increased by \$118.0 million, or 35.8%, from \$329.8 million to \$447.9

million. The growth in the investment portfolio was comprised of a \$117.1 million increase in the available-for-sale securities that we hold, which rose by 51.5%, from \$227.5 million to \$344.6 million, and \$3.1 million in a new stock investment in ASC Trust Corporation, partially offset by a \$2.2 million decrease in held-to-maturity securities, which declined by 2.2%, from \$100.5 million to \$98.3 million; there was a nominal increase in our holdings of Federal Home Loan Bank stock by \$93 thousand, or 5.3%.

Nonperforming Loans and Other Nonperforming Assets

Nonperforming loans consist of (i) loans on non-accrual status because we have ceased accruing interest on these loans; (ii) loans 90 days or more past due and still accruing interest; and, (iii) restructured loans. Other nonperforming assets consist of real estate properties (OREO) that have been acquired through foreclosure or similar means and which management intends to offer for sale. Loans are placed on non-accrual status when, in the opinion of management, the full and timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payment becomes 90 days past due, unless the loan is adequately collateralized and the loan is in the process of collection. When a loan is placed in non-accrual status, accrued but unpaid interest is reversed against current income. Subsequently, when payments are received on such loans, the amounts are applied to reduce principal, except when the ultimate collectability of principal is probable, in which case accrued loans may be restored to accrual status when principal and interest becomes current and full repayment is expected. Interest income is recognized on an accrual basis for impaired loans not meeting the non-accrual criteria.

The following table contains information regarding our nonperforming assets as well as restructured loans as of September 30, 2016, and December 31, 2015:

	September 30, 2016	December 31, 2015
Non-accrual loans:		
Commercial & industrial	\$ 1,479	\$ 1,334
Commercial mortgage	7,210	8,744
Residential mortgage	6,652	7,245
Home equity	35	37
Other consumer ¹	147	123
Total non-accrual loans	\$ 15,523	\$ 17,483
Loans past due 90 days and still accruing:		
Commercial & industrial	\$ -	\$ -
Commercial mortgage	-	-
Commercial construction	-	-
Commercial agriculture	-	-
Residential mortgage	39	175
Home equity	-	-
Automobile	79	59
Other consumer	1,239	1,397
Total loans past due 90 days and still accruing	\$ 1,357	\$ 1,631
Total nonperforming loans	\$ 16,880	\$ 19,114
Other real estate owned (OREO):		
Commercial real estate	\$ 1,742	\$ 2,973
Residential real estate	\$ 798	\$ 487
Total other real estate owned	\$ 2,540	\$ 3,460

Edgar Filing: BankGuam Holding Co - Form 10-Q

Other nonperforming assets:		
Other assets owned	\$ -	\$ -
Asset backed security	-	-
Total other nonperforming assets	\$ -	\$ -
Total nonperforming assets	\$ 19,420	\$ 22,574
Restructured loans:		
Accruing loans	\$ 79	\$ 88
Non-accruing loans (included in non-accrual loans above)	6,729	8,318
Total restructured loans	\$ 6,808	\$ 8,406

¹Comprised of other revolving credit, installment loans, and overdrafts.

The above table indicates that nonperforming loans decreased by \$2.2 million during the nine months ended September 30, 2016, which resulted from the decrease in total non-accrual loans by \$2.0 million, from \$17.5 million to \$15.5 million, and the decrease in total loans past due 90 days and still accruing by \$274 thousand to \$1.4 million, down from \$1.6 million at December 31, 2015. The decrease in total loans past due 90 days and still accruing was primarily due to the \$158 thousand reduction in other consumer loans and a \$136 thousand decline in residential mortgage loans in this category. The reduction in total non-accrual loans is primarily attributed to a drop in commercial mortgages in this category by \$1.5 million and the decrease in non-accrual residential mortgages by \$593 thousand.

At September 30, 2016, the Bank's largest nonperforming loans consisted of two commercial real estate mortgage loan relationships in the amount of \$5.4 million, both of which are secured by real estate located in Guam. These loans were placed on non-accrual due to deficiencies in the underlying cash flow to service the monthly loan payments and meet operating expenses. At this time, management believes that the collateral and the allowance for loan losses are adequate to cover these loans; however, should property values deteriorate, additional write-downs or additional provisions may be necessary.

Analysis of Allowance for Loan Losses

The allowance for loan losses was \$15.4 million, or 1.35% of outstanding gross loans as of September 30, 2016, as compared to \$14.2 million, or 1.32% of outstanding gross loans at December 31, 2015.

Management maintains an allowance for loan losses to absorb estimated credit losses associated with the loan portfolio. The adequacy of the allowance is determined by management through ongoing quarterly loan quality assessments.

Management assesses the estimated credit losses inherent in the non-classified and classified portions of our loan portfolio by considering a number of factors or elements including:

- Management's evaluation of the collectability of the loan portfolio;
- Credit concentrations;
- Historical loss experience in the loan portfolio;
- Levels of and trending in delinquency, classified assets, non-performing and impaired loans;
- Effects of changes in underwriting standards and other changes in lending policies, procedures and practices;
 - Experience, ability, and depth of lending management and other relevant staff;
- Local, regional, and national trends and conditions including industry-specific conditions;
- Effect of changes in credit concentration; and
- External factors such as competition, legal and regulatory conditions, as well as typhoon and other natural disasters.

Management determines the allowance for the classified loan portfolio and for non-classified loans by applying a percentage loss estimate that is calculated based on the above noted factors and trends. Management normally writes down impaired loans after determining the loans' credit and collateral fair value. Our analysis of the adequacy of the allowance incorporates the provisions made for our non-classified loans and classified loans.

In June 2016, a classified loan in the amount of \$1.1 million was paid off. As a result of the payoff, the Bank was able to recover previous principal charge downs of \$1.55 million, which was the primary factor for the allowance increasing to 1.35% of outstanding gross loans.

While management believes it uses the best information available for calculating the allowance, the results of operation could be significantly affected if circumstances differ substantially from the assumptions used in determining the allowance. The current qualitative and quantitative factors used to calculate the allowance are inherently subjective. The estimates and assumptions are subject to changes in economic prospects and regulatory guidelines, and other circumstances over which management has no control. The allowance may prove in the future to be insufficient to cover all of the losses the Bank may incur and it may be necessary to increase the allowance from time to time as a result of monitoring the adequacy of the allowance for loan losses.

The following table summarizes the changes in our allowance for loan losses:

	Residential			
	Commercial	Mortgages	Consumer	Total
Nine Months Ended September 30, 2016				
Allowance for loan losses:				
Balance at beginning of period	\$ 6,890	\$ 1,853	\$ 5,416	\$ 14,159
Charge-offs	(270)	(121)	(3,766)	\$(4,157)
Recoveries	1,667	3	972	\$2,642
Provision	184	249	2,282	\$2,715
Balance at end of period	\$ 8,471	\$ 1,984	\$ 4,904	\$ 15,359
Three Months Ended September 30, 2016				
Allowance for loan losses:				
Balance at beginning of period	\$ 8,421	\$ 2,010	\$ 5,518	\$ 15,949
Charge-offs	(64)	(30)	(1,228)	\$(1,322)
Recoveries	10	1	336	\$347
Provision	104	3	278	\$385
Balance at end of period	\$ 8,471	\$ 1,984	\$ 4,904	\$ 15,359
Allowance balance at end of quarter related to:				
Loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -
Loans collectively evaluated for impairment	\$ 8,471	\$ 1,984	\$ 4,904	\$ 15,359
Loan balances at end of quarter:				
Loans individually evaluated for impairment	\$ 8,749	\$ 6,705	\$ 148	\$ 15,602
Loans collectively evaluated for impairment	774,723	138,470	210,750	1,123,943
Ending balance	\$ 783,472	\$ 145,175	\$ 210,898	\$ 1,139,545
Year Ended December 31, 2015				
Allowance for loan losses:				
Balance at beginning of year	\$ 5,538	\$ 1,590	\$ 5,398	\$ 12,526
Charge-offs	(222)	(9)	(4,026)	(4,257)
Recoveries	98	32	1,272	1,402
Provision	1,476	240	2,772	4,488
Balance at end of year	\$ 6,890	\$ 1,853	\$ 5,416	\$ 14,159
Allowance balance at end of year related to:				
Loans individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -
Loans collectively evaluated for impairment	\$ 6,890	\$ 1,853	\$ 5,416	\$ 14,159
Loan balances at end of year:				
Loans individually evaluated for impairment	\$ 10,146	\$ 7,303	\$ 122	\$ 17,571
Loans collectively evaluated for impairment	705,669	137,332	210,016	1,053,017
Ending balance	\$ 715,815	\$ 144,635	\$ 210,138	\$ 1,070,588

Total Cash and Cash Equivalents

Total cash and cash equivalents were \$199.9 million and \$100.8 million at September 30, 2016, and December 31, 2015, respectively. This balance, which is comprised of cash and due from bank balances and interest-bearing deposits that we maintain at other financial institutions (including the Federal Reserve Bank of San Francisco, but excepting restricted cash), will vary depending on daily cash settlement activities, the amount of highly liquid assets needed based on known events such as the repayment of borrowings and scheduled withdrawals, and actual cash on hand in the Bank's branches. The increase in the balance during the period was primarily attributed to the receipt of large deposits from two relationships totaling approximately \$24.0 million for the acquisition of a commercial building and for funds held by an organization pending distribution to its members, of which \$17.4 million remain, and a large inter-government transfer that was pending distribution. It should be noted that the balance of Federal Funds sold was reduced to \$0.0 thousand during 2015 because a higher yield on these assets was available from the Federal Reserve Bank.

The following table sets forth the composition of our cash and cash equivalent balances at September 30, 2016, and December 31, 2015:

	September 30, 2016	December 31, 2015	Variance
Cash and due from banks	\$ 26,264	\$ 28,536	\$(2,272)
Interest-bearing deposits with financial institutions	173,592	72,263	101,329
Total cash and cash equivalents	\$ 199,856	\$ 100,799	\$99,057

Investment Securities

The Bank manages its securities portfolio to provide a source of both liquidity and earnings. The Bank has an Asset/Liability Committee (ALCO) that develops current investment policies based on its subsidiary Bank's operating needs and market circumstances. The Bank's investment policy is formally reviewed and approved annually by the Board of Directors, and the Asset/Liability Committee is responsible for reporting and monitoring compliance with the investment policy. Investment portfolio reports are provided to the Board of Directors on a monthly basis.

Edgar Filing: BankGuam Holding Co - Form 10-Q

At September 30, 2016, the carrying value of the investment securities portfolio (excluding ASC Trust Corporation stock and Federal Home Loan Bank stock) totaled \$442.9 million, which represents a \$114.9 million increase from the portfolio balance of \$328.1 million at December 31, 2015. The table below sets forth the amortized cost and fair value of our investment securities portfolio, with gross unrealized gains and losses, at September 30, 2016, and December 31, 2015:

	September 30, 2016			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities Available-for-Sale				
U.S. government agency and government sponsored enterprise (GSE) debt securities				
	\$97,945	\$ 884	\$ (9)	\$98,820
U.S. government agency pool securities				
	184,496	66	(1,358)	183,204
U.S. government agency or GSE mortgage-backed securities				
	61,999	694	(108)	62,585
Total	\$344,440	\$ 1,644	\$ (1,475)	\$344,609
Securities Held-to-Maturity				
U.S. government agency and GSE debt securities				
	\$44,842	\$ 1,903	\$ -	\$46,745
U.S. government agency pool securities				
	14,378	23	(92)	14,309
U.S. government agency or GSE mortgage-backed securities				
	39,100	1,096	(45)	40,151
Total	\$98,320	\$ 3,022	\$ (137)	\$101,205
	December 31, 2015			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Securities Available-for-Sale				
U.S. government agency and GSE debt securities				
	\$107,070	\$ -	\$ (1,048)	\$106,022
U.S. government agency pool securities				
	51,808	30	(934)	50,904
U.S. government agency or GSE mortgage-backed securities				
	71,562	44	(997)	70,609
Total	\$230,440	\$ 74	\$ (2,979)	\$227,535
Securities Held-to-Maturity				
U.S. government agency and GSE debt securities				
	\$44,638	\$ 1,055	\$ (116)	\$45,577
U.S. government agency pool securities				
	16,035	31	(47)	16,019
U.S. government agency or GSE mortgage-backed securities				
	39,846	613	(131)	40,328

Edgar Filing: BankGuam Holding Co - Form 10-Q

securities				
Total	\$100,519	\$ 1,699	\$ (294)	\$101,924

At September 30, 2016, and December 31, 2015, investment securities with a carrying value of \$323.3 million and \$202.8 million, respectively, were pledged to secure various government deposits and other public requirements.

42

Edgar Filing: BankGuam Holding Co - Form 10-Q

The amortized cost and fair value of investment securities by contractual maturity at September 30, 2016, and December 31, 2015, follows:

	September 30, 2016			
	Available-for-Sale		Held-to-Maturity	
	Estimated		Estimated	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Due within one year	\$-	\$-	\$-	\$-
Due after one but within five years	102,846	103,697	58,057	60,336
Due after five but within ten years	28,156	28,068	15,038	15,417
Due after ten years	213,438	212,844	25,225	25,452
Total	\$344,440	\$344,609	\$98,320	\$101,205

	December 31, 2015			
	Available-for-Sale		Held-to-Maturity	
	Estimated		Estimated	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Due within one year	\$-	\$-	\$-	\$-
Due after one but within five years	111,998	110,954	42,786	43,508
Due after five but within ten years	11,263	11,116	29,438	30,109
Due after ten years	107,179	105,465	28,295	28,307
Total	\$230,440	\$227,535	\$100,519	\$101,924

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at September 30, 2016, and December 31, 2015:

	September 30, 2016					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
	Unrealized Fair Loss	Unrealized Fair Value	Unrealized Fair Loss	Unrealized Fair Value	Unrealized Fair Loss	Unrealized Fair Value
Securities Available for Sale						
U.S. government agency and government						
sponsored enterprise (GSE) debt securities	\$ (9)	\$ 15,337	\$ -	\$ -	\$ (9)	\$ 15,337
U.S. government agency pool						
securities	(423)	105,685	(935)	28,276	(1,358)	133,961
U.S. government agency or GSE						
mortgage-backed securities	(5)	2,975	(103)	12,766	(108)	15,741
Total	\$ (437)	\$ 123,997	\$ (1,038)	\$ 41,042	\$ (1,475)	\$ 165,039
Securities Held to Maturity						
U.S. government agency and GSE						
debt securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agency pool						
securities	(6)	2,019	(86)	8,592	(92)	10,611
U.S. government agency or GSE						
mortgage-backed securities	(45)	3,973	-	-	(45)	3,973
Total	\$ (51)	\$ 5,992	\$ (86)	\$ 8,592	\$ (137)	\$ 14,584
	December 31, 2015					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
	Unrealized Fair Loss	Unrealized Fair Value	Unrealized Fair Loss	Unrealized Fair Value	Unrealized Fair Loss	Unrealized Fair Value
Securities Available for Sale						
U.S. government agency and GSE						
debt securities	\$ (1,048)	\$ 106,022	\$ -	\$ -	\$ (1,048)	\$ 106,022

Edgar Filing: BankGuam Holding Co - Form 10-Q

U.S. government agency pool							
securities	(51)	12,981	(883)	29,965	(934)	42,946	
U.S. government agency or GSE							
mortgage-backed securities	(864)	52,153	(133)	14,669	(997)	66,822	
Total	\$(1,963)	\$171,156	\$ (1,016)	\$ 44,634	\$(2,979)	\$215,790	

Securities Held to Maturity

U.S. government agency and GSE

debt securities	\$(116)	\$15,999	\$ -	\$ -	\$(116)	\$15,999	
-----------------	----------	----------	------	------	----------	----------	--

U.S. government agency pool

securities	(9)	6,558	(38)	7,832	(47)	14,390	
------------	------	-------	-------	-------	-------	--------	--

U.S. government agency or GSE

mortgage-backed securities	(131)	17,935	-	-	(131)	17,935	
----------------------------	--------	--------	---	---	--------	--------	--

Total	\$(256)	\$40,492	\$ (38)	\$ 7,832	\$(294)	\$48,324	
-------	----------	----------	----------	----------	----------	----------	--

The Company does not believe that any of the investment securities that were in an unrealized loss position as of September 30, 2016, which comprised a total of 70 securities, were other-than-temporarily impaired. Specifically, the 70 securities are comprised of the following: 58 Small Business Administration (SBA) Pool securities, 6 mortgage-backed securities issued by the Government National Mortgage Association (GNMA), 2 mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) and 4 step-up securities issued by the Federal Home Loan Bank (FHLB).

Total gross unrealized losses were primarily attributable to changes in interest rates relative to when the investment securities were purchased, and not due to changes in the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not likely that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

Deposits

At September 30, 2016, total deposit liabilities increased by \$273.4 million, to \$1.70 billion, as compared to \$1.42 billion in total deposits at December 31, 2015. Interest-bearing deposits increased by \$215.9 million, to \$1.22 billion at September 30, 2016, up from \$1.01 billion at December 31, 2015, while non-interest bearing deposits increased by \$57.4 million, to \$471.1 million at September 30, 2016, from \$413.7 million at December 31, 2015. The 19.2% increase in total deposits was primarily due to several large government deposits, improvements in general economic conditions and an inflow of consumer deposits due to a substantial payout of income tax refunds.

The following table sets forth the composition of our interest-bearing deposit portfolio with the average balances and average interest rates for the nine months ended September 30, 2016 and 2015, respectively:

	Nine Months Ended September 30,			
	2016		2015	
	Average	Average	Average	Average
	balance	rate	balance	rate
Interest-bearing checking accounts	\$204,889	0.11 %	\$154,789	0.11 %
Money market and savings accounts	867,622	0.18 %	795,562	0.20 %
Certificates of deposit	42,186	0.34 %	52,614	0.31 %
Total interest-bearing deposits	\$1,114,697	0.17 %	\$1,002,965	0.19 %

As mentioned earlier, the Bank has expanded its operations and its branch network since it first opened in 1972, first in Guam, then in the other islands of our region and in San Francisco, California. As time has passed, the Bank has gathered market share in each of the islands. In recent years, in order to diversify its geographic market, the Bank has increased its focus on growth in the California region. The following table provides figures for deposits in the Bank's administrative regions for the years ending December 31, 2014 and 2015, and the nine months ended September 30, 2016:

	At December 31,		At
	2014	2015	September 30, 2016
Guam	\$792,378	\$824,661	\$962,845
Commonwealth of the Northern Mariana Islands	\$230,654	\$234,336	\$307,039
The Freely Associated States of Micronesia *	\$285,509	\$314,603	\$374,008
California	\$46,973	\$49,071	\$52,138
Total	\$1,355,514	\$1,422,671	\$1,696,030

*The Freely Associated States (FAS) are comprised of the Federated States of Micronesia (Chuuk, Kosrae, Pohnpei and Yap), the Republic of Palau and the Republic of the Marshall Islands.

During the nine months ended September 30, 2016, the Bank's deposits increased by \$273.4 million, or 19.2%, while in the full year of 2015, deposits increased by a total of \$67.2 million. Our branches in Guam experienced an increase of \$138.2 million in deposits during the nine months ended September 30, 2016, while the deposits in our branches in the CNMI grew by \$72.7 million and our FAS branches provided an additional \$59.4 million. Our California region deposits increased by \$3.1 million during the first nine months of 2016.

Borrowed Funds

The Bank has a variety of sources from which it may obtain secondary funding. These sources include, among others, the Federal Reserve Bank of San Francisco, the Federal Home Loan Bank-Des Moines, and credit lines established with our correspondent banks. Borrowings are obtained for a variety of reasons which include, but are not limited to, funding loan growth, the purchase of investments in the absence of core deposits, and to provide additional liquidity to meet the demands of depositors.

During the 90 day period ended September 30, 2016, the Company retired \$300.0 thousand in short-term borrowings associated with the initial capitalization of its subsidiary, BankGuam Investment and Insurance Services, Inc. At September 30, 2016, and at December 31, 2015, the Company had no short-term borrowings.

Also at September 30, 2016, the Company carried \$3.5 million in subordinated debt associated with its purchase of a minority equity interest of 25% of ASC Trust Corporation and the retirement of the \$300 thousand in short term debt discussed in the previous paragraph.

Liquidity

We actively manage our liquidity to ensure that sufficient funds are available to meet our needs for cash, including cash needed to fund new loans and to accommodate deposit withdrawals and other transactions by our customers. We project future sources and uses of funds, and maintain additional liquid funds for unanticipated events. Our primary sources of cash include cash we have in deposits at other financial institutions, the repayment of loans, proceeds from the sale or maturity of investment securities, and increases in deposits. The primary uses of cash include funding new loans and making advances on existing lines of credit, purchasing investments, funding new residential mortgage loans, funding deposit withdrawals, and paying operating expenses. From time to time, we may maintain funds in overnight Federal Funds and other short-term investments to provide for short-term liquidity needs. We also have established, for contingency funding purposes, credit lines with the Federal Reserve Bank of San Francisco, the Federal Home Loan Bank-Seattle, and correspondent commercial banks in the U.S.

At September 30, 2016, our liquid assets, which include cash and due from banks, interest-earning deposits with financial institutions (excluding restricted cash), and investment securities available for sale totaled \$544.5 million, up \$216.1 million from \$328.3 million at December 31, 2015.

This increase is comprised of the \$117.1 million rise in available-for-sale securities and the increase of \$101.3 million in interest bearing deposits in banks, partially offset by a \$2.3 million decrease in cash and due from banks.

Contractual Obligations

The Bank utilizes facilities, equipment and land under various operating leases with terms, including renewal options, ranging from 1 to 99 years. Some of these leases include scheduled rent increases. The total amount of the rent is being debited to expense on the straight-line method over the lease terms in accordance with ASU Topic 840 "Leases". The Bank has recorded a deferred obligation of \$913 thousand and \$874 thousand as of September 30, 2016, and December 31, 2015, respectively, which has been included within other liabilities to reflect the excess of rent expense over cash paid on the leases.

At September 30, 2016, annual lease commitments under the above non-cancelable operating leases were as follows:

Years ending December 31,	
2016	\$516
2017	1,783
2018	1,436
2019	1,241
2020 and thereafter	20,320
Total lease commitments	\$25,296

The Bank leases certain facilities from two separate entities in which two of its directors have separate ownership interests. Lease payments made to these entities during the nine months ended September 30, 2016, and the twelve months ended December 31, 2015, approximated \$286 thousand and \$370 thousand, respectively.

Additionally, the Bank leases office space to third parties, with original lease terms ranging from 3 to 5 years with option periods ranging up to 15 years. At September 30, 2016, minimum future rents to be received under non-cancelable operating sublease agreements were \$22 thousand, \$44 thousand, and \$29 thousand for the periods ending December 31, 2015, 2017 and 2018, respectively.

A summary of rental activities for the nine months ended September 30, 2016 and 2015, respectively, is as follows:

	Nine Months Ended September 30,	
	2016	2015
Rent expense	\$1,978	\$1,893
Less: sublease rentals	215	205
Net rent expense	\$1,763	\$1,688

Off Balance Sheet Arrangements

Edgar Filing: BankGuam Holding Co - Form 10-Q

The Bank is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the condensed consolidated financial statements.

The Bank's exposure to credit loss, in the event of nonperformance by the other parties to financial instruments for loan commitments and letters of credit, is represented by the contractual amount of these instruments. The Bank follows essentially the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of financial instruments with off-balance-sheet risk at September 30, 2016, and December 31, 2015, is as follows:

	September 30, 2016	December 31, 2015
Commitments to extend credit	\$ 137,204	\$ 153,412
Letters of credit:		
Standby letters of credit	\$ 48,846	\$ 49,256
Other letters of credit	3,334	6,546
Total	\$ 52,180	\$ 55,802

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for certain lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party or the shipment of merchandise from a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Almost all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is effectively the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments.

The Bank considers its standby and commercial letters of credit to be guarantees. At September 30, 2016, the maximum undiscounted future payments that the Bank could be required to make was \$52.2 million. Almost all of these arrangements mature within one year. The Bank generally has recourse to recover from the customer any amounts paid under these guarantees. Most of the guarantees are fully collateralized; however, several that are extended to the Bank's most creditworthy customers are unsecured. The Bank has recorded \$15.0 thousand in reserve liabilities associated with commitments to extend credit and letters of credit at September 30, 2016.

Mortgage loans serviced for others are not included in the accompanying condensed consolidated statements of condition. The unpaid principal balances of mortgage loans serviced for others were \$212.4 million and \$213.2 million at September 30, 2016, and December 31, 2015, respectively. On September 30, 2016, and December 31, 2015, the Bank recorded mortgage servicing rights at their fair value of \$1.5 million and \$1.5 million, respectively.

Capital Resources

The Bank is subject to various regulatory capital requirements administered by the United States federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's condensed consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital and the new Common Equity Tier 1 capital which took effect on January 1, 2015 (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of September 30, 2016, and December 31, 2015, the Bank met all capital adequacy requirements to which it is subject.

As of September 30, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There have been no conditions or events since the FDIC notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of September 30, 2016, and December 31, 2015, are also presented in the table.

				To Be Well Capitalized	
				For Capital Adequacy	Under Prompt Corrective
		Actual	Purposes	Action Provisions	
		Amount	Amount	Amount	Ratio
		Ratio	Ratio	Ratio	Ratio
At September 30, 2016:					

Edgar Filing: BankGuam Holding Co - Form 10-Q

Total capital (to Risk Weighted Assets)	\$ 136,620	12.260%	\$ 96,123	8.625	%	\$ 111,447	10.000	%
Tier 1 capital (to Risk Weighted Assets)	\$ 122,671	11.010%	\$ 73,834	6.625	%	\$ 89,158	8.000	%
Tier 1 capital (to Average Assets)	\$ 122,671	6.970	\$ 70,401	4.000	%	\$ 88,002	5.000	%
Common Equity Tier 1 Capital								
(to Risk Weighted Assets)	\$ 122,671	11.010%	\$ 57,117	5.125	%	\$ 72,441	6.500	%
At December 31, 2015:								
Total capital (to Risk Weighted Assets)	\$ 128,119	12.452%	\$ 82,315	8.000	%	\$ 102,893	10.000	%
Tier 1 capital (to Risk Weighted Assets)	\$ 115,242	11.200%	\$ 61,736	6.000	%	\$ 82,315	8.000	%
Tier 1 capital (to Average Assets)	\$ 115,242	7.404	\$ 62,256	4.000	%	\$ 77,820	5.000	%
Common Equity Tier 1 Capital								
(to Risk Weighted Assets)	\$ 115,242	11.200%	\$ 46,302	4.500	%	\$ 66,881	6.500	%

Since the formation of BankGuam Holding Company in 2011, our assets have grown by 66.4% (\$732.7 million), while our stockholders' equity has grown by 39.3% (\$34.9 million, including \$30.0 million in retained earnings). The difference between these growth rates has challenged our ability to maintain our historically strong capital ratios. In order to support the Company's continued growth and to provide sufficient resources to expand our subsidiary holdings, our Board of Directors approved the issuance of an additional \$5.0 million in common stock during its regularly scheduled meeting in June 2015. During September 2015, \$2.7 million of new common stock was issued under this initiative. During October of 2015, \$170.9 thousand more of this stock was issued. In addition, the Board has approved the issuance of up to \$10.0 million in non-cumulative perpetual preferred stock, to be issued to various accredited and a limited number of non-accredited investors, of which \$1.7 million was issued during the three months ended September 30, 2016.

Contingency Planning and Cybersecurity

The services provided by banks are crucial to the continuing performance of the economy, so it is very important that banks are able to conduct business as usual on an ongoing basis. In light of this, the Bank has developed a comprehensive business continuity plan to address whatever

disruptions may directly affect customers or change internal processes, whether caused by man-made or natural events. Training in the plan components is conducted annually, and risk-based testing of the major processes and procedures within the Bank occur on a regular basis. In modern banking, technology has taken on an increasingly important role, and the Bank also has a technology recovery component incorporated into the business continuity plan that provides specific, detailed procedures for recovering quickly from any technology failure. The technology recovery procedures are actively tested, and are also implemented from time to time. The recovery time objectives for all major technological processes range from eight hours to 80 hours, enabling the Bank to maintain or resume operations with a minimum impact on its customers. As the results of testing are analyzed and as technology continues to advance, improvements are made in the Bank's processes and procedures as the plan evolves.

The rapid advances in computing and telecommunications technology over the past several decades have brought with them increasingly sophisticated methods of delivering financial services through electronic channels. Along with these advances, though, have come risks regarding the integrity and privacy of data, and these risks apply to banking, perhaps more than any other industry, falling into the general classification of cybersecurity. The Bank has made substantial investments in multiple systems to ensure both the integrity of its data and the protection of the privacy of its customers' personal financial and identity information. While it is not possible for anyone to give an absolute guarantee that data will not be compromised, the Bank is confident that its systems provide a reasonable assurance that the financial and personal data that it holds are secure.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2016. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2016, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's Rules and forms and is accumulated and communicated to management, including our Chief Executive and Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial

reporting.

48

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit

No.	Exhibit
10.01	Form of Private Placement Subscription Agreement incorporated by reference from the Company's Current Reports on Form 8-K filed with the SEC on September 21, 2016
31.01	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.01	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Unaudited Condensed Consolidated Statements of Condition as of September 30, 2016, and December 31, 2015, (ii) Unaudited Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2016 and 2015, and (v) Notes to Unaudited Condensed Consolidated Financial Statements

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, BankGuam Holding Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANKGUAM HOLDING COMPANY

Date: November 8, 2016 By: /s/ LOURDES A. LEON GUERRERO
Lourdes A. Leon Guerrero,

President and Chief Executive Officer

Date: November 8, 2016 By: /s/ FRANCISCO M. ATALIG
Francisco M. Atalig,

Senior Vice President and Chief Financial Officer